



# GÜNEŞ SİGORTA

"Insuring Our Values"

2016  
ANNUAL REPORT

# Contents

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# Introduction

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# Corporate Profile

Being one of the strong and established corporations in its sector, Güneş Sigorta conducts its activities within the framework of the Insurance Law and the other regulations and notifications issued by the Undersecretariat of Treasury based on this law; its activities are mainly focused on all non-life insurance branches such as fire and compulsory earthquake, goods on transit, ships hull and machinery, marine liability, motor vehicles physical damage, motor vehicle third party liability, casualty, aviation, aviation liability, other lines related to property, general liability, legal protection, credit, sickness/health, assistance and miscellaneous financial loss.

Main shareholders of Güneş Sigorta are Türkiye Vakıflar Bankası T.A.O., which is one of the most reputable banks of our country and Groupama S.A., which is one of the leader insurance corporations of France.

Using its insurance knowledge for meeting its customers' needs for special products and services, structuring its sales staff with the strength that can support the gradually increasing objectives of sales resources, adopting customer satisfaction as an indispensable performance criterion and ensuring that its investors are thoroughly informed about any issues by protecting their rights, Güneş Sigorta is a long-established company operating in Turkish insurance sector for 59 years.

Paying meticulous care to quick policy production, product diversification and post-damage services using its technological infrastructure as well as its expert employees comprising nine regional office, six financial regional offices, three representative offices and nearly 3,000 sales channels, Güneş Sigorta has been embraced as a preferred and trusted brand in the market.

In addition to main insurance branches, the company also provides assurance in every field of life with its insurance products such as residence and workplace fire package policies, theft, personal accident, cash transfer, glass breakage, product liability, hotel package, travel, office, doctor's office, loss of profit, motor own damage, traffic, hull and machinery, general third party liability, employer's liability, compulsory personal accident for miners, travel health, supplementary health, health insurance for foreign nationals, legal protection and green card. The Company also meets the needs of business world in various branches including commercial and industrial risk insurances; aircraft, helicopter, watercraft and land transportation vehicles; heavy industry and fleet insurance.

Güneş Sigorta holds ISO 9001:2008 Quality Management System Certificate and ISO 10002:2004 Customer Complaints Management System Certificate.

## 1957

- » Güneş Sigorta was founded. Fire, Transportation and Accident branches were opened.

## 1959

- » Life Insurance branch was established.

## 1969

- » Engineering insurance branch was founded for the first time in Turkey.

## 1974

- » Agricultural insurance branch was founded.

## 1980

- » The shares of Istanbul Bank were acquired by Ziraat Bank.

## 1986

- » Güneş Sigorta Sports Club was founded.

## 1991

- » 30% of Güneş Sigorta shares were purchased by GAN.

## 1992

- » Güneş Sigorta Women's Volleyball Team became the Youth League Champion.

## 1993

- » Güneş Sigorta Women's Volleyball Team won the National Championship.

## 1994

- » Güneş Sigorta offered 15% of its shares to the public.

## 1997

- » ISO 9000 Quality Management System was initiated.

## 1998

- » As Groupama, acquired GAN, 30% of Güneş Sigorta shares were transferred to Groupama International.

## 1999

- » Being a sector pioneer, Güneş Sigorta opened the Legal Protection Insurance branch.

## 2000

- » VakıfBank Sports Club merged with Güneş Sigorta Sports Club.
- » VakıfBank Güneş Sigorta Sports Club Girls Gymnastics Team won the national championship.

## 2001

- » Health Insurance branch was opened.
- » "Agents Council" was put into practice for the first time in the sector.

## 2002

- » In the frame of "mini" repair service, the first collaboration of the sector was built with Autoking.
- » VakıfBank Güneş Sigorta Women's Volleyball Team became the Youth League Champion.

## 2003

- » Motor Vehicles Financial Liability Insurance and Loan Insurance branches were established.
- » Authorization was received to convert into Individual Pension. VakıfBank Emeklilik was founded.
- » Pioneering practices like Automobile Extra and hologram policy were put into practice.
- » ISO 9001:2008 Quality Management System was employed.

## 2007

- » Celebrating its 50th anniversary, Güneş Sigorta raised its market share to 6.85% and ranked 5th in the sector.
- » Güneş Sigorta Sailing Club was founded.

## 2008

- » In the insurance Summit organized by Active Academy, Güneş Sigorta received the Corporate Social Responsibility Award.

## 2009

- » Life insurance branch was handed over to Vakıf Emeklilik.
- » The number of special agencies was increased to 1,800.
- » In order to produce some of its

electricity need, Güneş Sigorta built a solar energy plant at its head-office.

- » The insurance center sales support team was formed to provide assistance for bank branches.

## 2010

- » ISO 10002:2004 Customer Complaints Management System Certificate was received.
- » For the first time in Turkey, the "Early Warning System" was offered to service as a precaution for the frost risk in greenhouses.
- » Policies were produced with Pusula, the biggest IT project of the sector.
- » Health Provision center was founded.
- » Intranet connection with Güneş-net agents was built.

## 2011

- » United Nations Global Impact was signed.
- » Güneş-im, the corporate communication platform for Güneş Sigorta employees was put into service.
- » 55,000 microloan holders in Turkey were covered by MikroSigorta.

## 2012

- » The new IT system Pusula was fully integrated and employed.
- » Approximately 200 aircrafts and 16,000 employees of Turkish Airlines were insured upon a 4-year contract with the company.
- » Active communication was maintained via Facebook and Twitter.
- » The Green Vehicle Insurance, a policy that covers electric vehicles with battery, was launched for the first time in Turkey.
- » Two independent members were elected for the Board of Directors.
- » Insurance Ethical Principles published by the Insurance Association of Turkey were adopted.

## 2013

- » Six new Financial Regional Offices were founded.
- » Principal Agreement was made to comply with the new Turkish Code of Commerce (TCC).
- » E-General Assembly was held for the first time.

- » Competition Law principles were adopted.
- » Social media communication was accelerated with Facebook insurance application and "Güneşi Yakala" competition.
- » MikroKonut Insurance was offered to service towards low-income citizens within the context of responsibility project.
- » MikroSigorta product won first place award within the context of European Corporate Social Responsibility Award Program.
- » Armada, unique business intelligence and data warehouse project, was brought into life.
- » Güneş Sigorta passed TRY 1 billion premium wall.

## 2014

- » Corporate webpage was renewed in accordance with all devices accessing to Internet and freedom for easy operating was provided to visitors.
- » Chance for winning travel abroad was provided to agencies with Güneş Puan practice.
- » Health Insurance for Foreign Residents (YBU) policies started to be produced from the agency.

## 2015

- » Güneşim Complementary Health and İksir products were launched for sale.
- » Legal Protection product was launched for sale.
- » Mine Workers Compulsory Personal Accident Insurance product against the occupational risks of mineworkers.
- » Centralization studies were completed for recourse, damage and accounting procedures (Except Cyprus Regional Office).
- » Direct Sales structuring was completed.
- » Istanbul Central Regional Management was closed with all of its functions and affiliated with Istanbul West Regional Office.

## 2016

- » Transition of health policies to Pusula application was completed.
- » Policy proposal screen was created over the Company's website.
- » Issued capital was increased from TRY 150,000,000 to TRY 270,000,000.



# Güneş Sigorta's Mission, Vision and Values

## OUR VISION

To pioneer change in the insurance industry, to create value for stakeholders and be the most preferred provider in the industry.

## OUR MISSION

To understand the needs of the customer and offer creative solutions with a customer oriented perspective.  
To contribute to the improvement of the standards in the insurance industry and to create public awareness.  
To offer the highest benefit to stakeholders with our current strategic direction and the ever-growing human resources.

## OUR VALUES

- » Pioneer in Change
- » Reliable
- » Progressive
- » Making a Difference
- » Result Oriented
- » Customer Oriented

## OUR CUSTOMER RELATIONS POLICY

In line with our high-quality policy that was established through our mission, vision, and core values, we also believe in the enormous importance of customer satisfaction created by our products and services. In order to provide you with the best possible service, Güneş Sigorta has strengthened its commitment to customer satisfaction through comprehensive strategies and efforts that aim to improve customer relations processes.

As a result, we are proud to announce that following the audits by the American Systems Registrar (ASR), an international certification agency, our high quality customer service has been granted an ISO 10002:2004 Customer Complaints Management System Certificate, a certificate given to very few companies in the insurance industry.

In order to provide you with the best possible service, Güneş Sigorta has strengthened its commitment to customer satisfaction through comprehensive strategies and efforts that aim to improve customer relations processes.

## CORE PRINCIPLES

- » **Accessibility**  
Thanks to a variety of communication means provided by the Company, customers are able to access us easily in order to share their complaints, information demands, suggestions, or satisfaction levels with us.
- » **Availability of Information**  
Customers are also able to receive any information they request in the shortest time and in the fastest way possible.
- » **Fast Feedback**  
Responding promptly to all customer requests is among the basic priorities of our Company.
- » **Solution Emphasis**  
Fast and effective solutions are tailored to customer needs.
- » **Objectivity**  
In addition to assessing and handling all customer requests objectively, we also believe that objectivity is essential when seeking solutions.
- » **Confidentiality**  
Use of any personal information obtained through customer requests are restricted by law and bound to the principle of confidentiality.
- » **Customer Focus**  
A customer-oriented policy is pursued to provide customers with the best service and to ensure that customer expectations are fully satisfied.
- » **Initiative Taking**  
Employees are encouraged to take initiative and to make necessary decisions when required in order to meet customer needs in the shortest possible time and to maintain maximum levels of customer satisfaction.
- » **Customer Engagement**  
Customers are kept informed of the assessment and solution-seeking efforts in the management of their requests and are able to be actively engaged in the process.
- » **Accountability**  
Assessment, solution-seeking efforts, status codes, and results of customer requests are reported and monitored.
- » **Internal Information Exchange**  
Customer relations activities are shared and monitored within the Company.
- » **Continuous Development**  
Customer suggestions and ideas are carefully assessed and used as a source for continuous improvement efforts.
- » **Professionalism**  
Customer demands are answered by our qualified employees in a professional manner.

# Shareholding Structure and Financial Data Summary

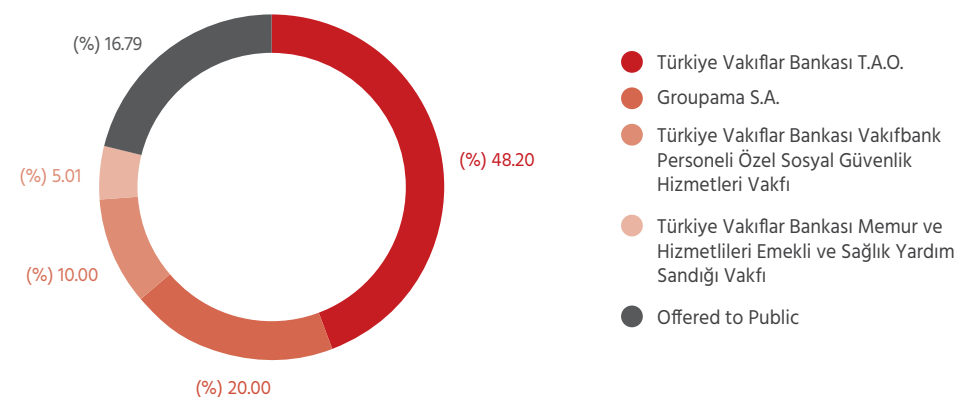
The capital increase process initiated in relation to Güneş Sigorta's capital structure upon the resolution on capital increase taken by the Board of the Directors on 20 July 2016 was registered upon its publication in the Official Gazette on 30 December 2016; and through the public offering of shares with the nominal value of TRY 120,000,000 our Company's issued capital was increased from TRY 150,000,000 to TRY 270,000,000. The new capital structure is shown below.

Güneş Sigorta's principal shareholder is Türkiye Vakıflar Bankası T.A.O. with a 48,20% stake in the company and its second biggest shareholder is Groupama S.A., one of the world's leading insurance corporations holding a 20,00% stake in the company. With its shares traded at BIST National Market under the ticker GUSGR, The Company's market value totalled TRY 283,500,000 by 30 December 2016.

## CAPITAL AND SHAREHOLDER STRUCTURE

Shareholders	Share(%)	Share Value(TRY)
Türkiye Vakıflar Bankası T.A.O.	48.20	130,142,843
Groupama S.A.	20.00	54,000,000
Türkiye Vakıflar Bankası Vakıfbank Personeli Özel Sosyal Güvenlik Hizmetleri Vakfı	10.00	27,000,000
Türkiye Vakıflar Bankası Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı	5.01	13,527,000
Offered to Public*	16.79	45,330,157
<b>TOTAL</b>	<b>100</b>	<b>270,000,000</b>

(\*) Public offering rate is 30.03% with additional shares of Groupama SA having 0.10% and Vakıflar Bankası T.A.O. having 13.14%.



Güneş Sigorta's principal shareholder is Türkiye Vakıflar Bankası T.A.O., which controls a 48,20% stake in the company. Its second biggest (20%) shareholder is Groupama S.A., one of the world's leading insurers. Güneş Sigorta shares are traded at Borsa İstanbul national market under the ticker GUSGR. As of Dec 30, 2016, the company's market value totalled TRY 283,500,000

## SUBSIDIARIES

Subsidiaries	Güneş Sigorta's Participation (000 TRY)	Güneş Sigorta's Share in Capital (%)	Capital of the Subsidiary (000 TRY)
Vakıf Finansal Kiralama A.Ş.	13,615	15.65	87,000
Vakıf Emeklilik A.Ş.	9,832	37.10	26,500
Taksim Otelcilik A.Ş.	4,790	1.43	334,257
Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş.	3,709	1.74	213,000
Vakıf Faktoring Hizmetleri A.Ş.	3,070	13.71	22,400
Vakıf Pazarlama ve Ticaret A.Ş.	2,952	9.76	30,241
Vakıf Menkul Kıymetler Yatırım Ortaklığı A.Ş.	2,200	11.00	20,000
Vakıf Enerji ve Madencilik A.Ş.	1,504	1.77	85,000
Vakıf İnşaat Restorasyon ve Ticaret A.Ş.	1,004	2.92	34,330
Türk P ve I Sigorta A.Ş.	1,000	16.67	6,000
Tarım Sigortaları Havuz İşletmesi A.Ş.	220	4.17	5,283
Vakıf Yatırım Menkul Değerler A.Ş.	88	0.25	35,000
<b>TOTAL</b>	<b>43,982</b>		

## PRIMARY FINANCIAL INDICATORS

Financial Indicators (000 TRY)	2016	2015
Total Assets	1,756,036	1,536,797
Total Liabilities	1,322,841	1,230,694
Paid-in Capital	270,000	150,000
Shareholder's Equity	433,195	306,102
Gross Claims Paid	1,372,978	1,288,379
General Expenses	(757,106)	(696,391)
Financial Income	(89,408)	(88,490)
Financial Expenses	82,850	100,242
Financial Profit	(89,647)	(91,510)
Income on investments	(6,797)	8,731
Gross Technical Profit *	66,411	(106,723)
Technical Part Balance	17,922	(142,886)
Net Profit	(50,762)	(162,569)

## FINANCIAL ANALYSIS RATIOS

Capital Adequacy Ratios	2016 (%)	2015 (%)
Written Premiums / Shareholder's Equity	317	421
Shareholder's Equity / Total Assets	25	20
Shareholder's Equity / Technical Reserves (Net)	42	33

Ratios Regarding Asset Quality & Liquidity	2016 (%)	2015 (%)
Liquid Assets / Total Assets	38	33
Liquidity Ratio	52	42
Current Ratio	91	84
Receivables from Premium and Reinsurance / Total Assets	22	26
Receivables from Agencies / Shareholder's Equity	48	68

Operational Ratios	2016 (%)	2015 (%)
Retention Ratio	55	56
Claims Paid / (Claims Paid + Outstanding Claims)	41	43

Profitability Ratios	2016 (%)	2015 (%)
Loss Ratio (Net)	80	104
Gross Technical Profit / Written Premiums	5	-8
Financial Profit / Written Premiums	-0,5	1
Net Profit / Written Premiums	-4	-13
Net Profit / Shareholder's Equity	-12	-53

(\*) Gross technical profit refers to the operating profit from insurance activities calculated through subtraction from the technical section balance of the investment income transferred to technical section and deduction of general expense accounts.

# Message from the Chairman of the BoD



In 2016, we have experienced a year full of action on a global scale. Despite the economic slowdown which we considered transient, Turkey has re-attained its place among the growing economies of the world in 2016 with its generally dynamic structure.

Within the year, the United Kingdom decided to leave the European Union (Brexit). The presidential elections in the USA has remained as a topical issue on the agenda of the entire world. In addition, the market perception that grew stronger indicating that the period of monetary expansion and low interest rates which started after the economic crisis in the USA in 2008 has now come to an end created pressure on the financial markets of developing countries in particular.

In Turkey, the 4.5% growth achieved in economy in the first two quarters decelerated in the third quarter. While the annual inflation rate was recorded as 8.53% based on the Consumer Prices Index (CPI), the increase in exchange rates particularly towards the end of the year adversely affected nearly all sectors.

By the way, there were various giant projects implemented in Turkey in 2016, i.e. Osman Gazi Bridge constructed over the Gulf of Izmit, Yavuz Sultan Selim Bridge and Avrasya (Eurasia) Tunnel connecting both sides of Istanbul Strait. The governmental management of

economy disclosed several packages of actions and incentives for relieving both the real sector and the labour market.

Being one of the sectors reflecting the high growth potential of our country, insurance sector displayed a rate of growth as high as 30.5% in 2016. After inflation adjustment, the real growth in the sector was realized as 20.2%. These rates demonstrate an extraordinarily high growth when compared with the growth rates of 5.4% and 2.4% observed around the world in 2016 in life insurances and non-life branches, respectively.

The process experienced in relation to Traffic insurance is one of the important developments that makes the year 2016 special. I think that the normalization experienced in 2016 in the field of Traffic insurances that have become a serious problem for the sector, writing off a loss of TRY 7 billion in 2015, has been a positive and significant development for the industry. It is clear that there is a need for a general strategic approach towards development of different branches by decreasing the sector's dependency on motor vehicle insurances. I think that the year 2016 constituted a milestone for the future periods in this sense.

As Güneş Sigorta, we act with the mission of pioneering in diversification of products on the market and the trend towards high value-added products. We are very glad to see that the new products that we have placed on the market in the recent years have been adopted and are constantly growing. This contribution that we make in the insurance sector, the biggest assurance

for the assets and values in economy, is the source of pride for us beyond any and all success stories.

Having continued its existence for over 60 years thanks to its strong structure and modern banking methods and applications, Güneş Sigorta has increased its capital with the great support received from our principal shareholder Türkiye Vakıflar Bankası and further strengthened its position in the sector in 2016. Our Company will continue to use this strength for innovative products that it develops considering the needs of our economy, our sector and our people.

On behalf of our Board of Directors and myself, I would like to express my gratitude, particularly to all our shareholders and Güneş Sigorta employees who have shared all their energy and knowledge with us, thus contributing in the achievement of this point of proud for our company that will celebrate its 60th year in 2017, and to all our stakeholders that have always stood by us with their support.

Yours sincerely,

**Halil AYDOĞAN**  
Chairman of the Board of Directors

**As Güneş Sigorta, we consider this contribution that we make in the insurance sector, the biggest assurance for the assets and values in economy, as the source of pride for us beyond any and all success stories.**



# Message from the General Manager



Dear our Stakeholders,

Despite all the adversities experienced all around the world, Turkish Insurance industry continued to grow and to support the economy in 2016; total premium production reached TRY 40.49 billion displaying an annual rate of increase by 30.5%. Although the 72.7% growth in traffic branch had a considerable impact, the figures achieved in non-traffic branches have demonstrated again the high growth potential of insurance sector in Turkey despite the negative conditions.

Having started the year 2016 after completion of its centralization projects initiated for increasing operational efficiency, Güneş Sigorta continued to undertake change leadership in the sector.

Having closed the year 2016 with 3.9% market share and a premium production figure of TRY 1.37 billion, Güneş Sigorta stands out not only with its products distinguishing it within the sector, but also with its strong financial structure based on the strategic trends that it has developed based on the principles of profitability, operational efficiency, sustainable growth and stakeholder satisfaction; thus, gradually strengthening its position within Turkish insurance sector.

The increase of our company's issued capital from TRY 150 million to 270 million upon the capital increase decision taken in 2016 has further strengthened Güneş Sigorta, turning it into the strong-

hold of the insurance sector. This development has also enabled Güneş Sigorta to attain a good place in the market in terms of capital adequacy ratio. In addition, the loss written off in 2015 due to the legislative changes with regard to the method of calculation of provisions that are set aside, the prolonged court proceedings related with physical injury claims and traffic insurances have significantly decreased in 2016. While our Company's size of assets increased from TRY 1.53 billion to TRY 1.76 billion; its shareholders' equity increased from TRY 306 million to TRY 433 million.

Having spent a year focused on profitability, Güneş Sigorta displayed a 7% growth in premium production under the impact of its non-growth strategy in Traffic insurances.

On the other hand, our company focused its attention on encouraging campaigns and trainings, by continuing its activities towards expanding its market share in non-auto branches and increasing its growth rate in this field creating a high added value for our company in 2016.

Our Company anticipates that the companies and agencies that are financially strong and institutionalized, offering value added products by closely monitoring their customers' changing demands and requirements and properly using the technology will survive in the long run; thus, it develops its product portfolio and pricing structure accordingly.

One of the important steps taken by our Company in 2016 is the transition of its entire health branch to Pusula system, which is followed by another step taken with Complementary Health Insurance. I think that Complementary Health Insurance branch will display a great growth in 2017. We anticipate that the penetration rate and the prestige of insurance in Turkish insurance industry will further increase thanks to such innovative products.

In 2017, with the expectation of overcoming the economic slowdown in Turkey and creation of a more positive environment that will eliminate the negative impacts caused by the international conjuncture, we wish that the insurance sector that already has a high growth potential will attain an environment where it can better utilize this capacity. As Güneş Sigorta, we aim to increase our premium production and profit generation capacity through a right resource –right branch– right product strategy and the actions towards increasing operational efficiency in such a positive environment.

I would like to take this opportunity to express my gratitude to all our employees that worked devotedly sparing no efforts in order to enable Güneş Sigorta to attain a better place in 2016, to our main shareholder Türkiye Vakıflar Bankası that always stood behind us with its support, to our agencies that are a part of our family, and to all our insurance holders and our stakeholders that played an important role in the advancement of our company with their trust that they showed to Güneş Sigorta.

Yours sincerely,

**Serhat Süreyya ÇETİN**  
General Manager

**As Güneş Sigorta, we aim to increase our premium production and profit generation capacity through a right resource –right branch– right product strategy and the actions towards increasing operational efficiency.**



# Economic Outlook in 2016

In the year 2016 that has taken over many problems from the previous period, the issue of stagnation that was the most important one could not be overcome and a permanent balance could not be achieved in the global economy despite the 30 quarters that have elapsed since the global crisis. Despite the decline in the countries in Asia-Pacific region that have taken up the locomotive role in the global economy for years, the growth has also continued in 2016; however, the weakness in growth observed particularly in the European Union states has become almost chronic. The failure in achievement of the desired stable growth despite all the measures taken causes a slowdown in the international trade, thus resulting in a shrinkage of trade volume. In its meeting dated 8 December 2016, the European Central Bank (ECB) declared that it would not change its policy interest that it kept at zero level. The ECB announced that it would continue its asset-buying program of 80 billion euros which was due to end in March 2017 until the end of the year, but its size would be cut to 60 billion dollars.

The uncertainty caused by the UK's decision to leave the European Union (Brexit) in the middle of the year was considered by IMF as a "development entailing substantial negative risks for the world economy", thus causing the global economic growth expectation to be revised from 3.2% down to 3.1% for 2016. Since Brexit will cause a shrinkage in the EU market having the largest share in Turkish exports, it also entails risks for our country.

Since the improvement observed in the economic data in US economy since the second half of the year created a posi-

tive expectation in general, the growth in 2016 was below the expectations and realized at the level of 1.6 percent, the lowest level after that in 2011. The exchange rate of dollar that started to rise under the impact of the American Central Bank's (FED) rate hike expectations and the global developments broke successive records upon the election of Donald Trump. On the other hand, the speeches given by Trump during his election process has created the impression that a new era is beginning in the USA; and the uncertainties caused by it have increased the risk perception, particularly towards the developing countries.

However, the unemployment rate in the USA is at the pre-recession levels with the rate of 4.6%; and the forecasts for economic growth in 2017 have increased from 2% to 2.1%. Having increased interests by 25 basis points to the range of 0.50% - 0.75% in December, FED is expected to raise interests more rapidly in the upcoming period.

Although the desired speed towards 2% inflation target set by the Central Bank of Japan could not be achieved in 2016, the growth rate that was announced as 0.5 percent in the third quarter was revised down to 0.3%. Although the Chinese economy displayed its slowest growth of the last 26 years with the growth rate of 6.7%, it maintains its low, but balanced growth trend. The Indian economy considered as the new locomotive of the global economy is expected to grow in line with IMF's 7.5% growth forecast.

In addition to the factors like low commodity prices, low interest rates, low volume of trade and low growth rates,



which outlined the global economy in 2016; political risks, conservative policies, geopolitical conflicts and terrorist attacks have been the other factors intensifying the uncertainties and creating pressure on economic activity.

In the Turkish economy that was adversely affected by these developments, there is a remarkable slowdown in terms of growth indicators. Having grabbed attentions with high growth rates after the 2008 crisis, Turkish economy has lost its speed of growth in part due to the decreased investment appetite and the decline in the private investment expenditures depending on the heavy concentration of geopolitical risks in the recent years and the increased uncertainties caused by the global economy.

Turkish economy left behind a difficult year under the impacts of regional and global developments in 2016; the growth that started the year relatively rapidly displayed a negative trend in the third quarter and the economy shrunk by 1.8% for the first time after 27 quarters. In the Medium-Term Program announced by the government in October, the growth forecast for 2016 was reduced from 4.5% to 3.2%. Similarly, the current deficit/GDP target for 2016 was revised from 3.9% to 4.3%; the unemployment rate was revised from 10.2% to 10.5%; and the ratio of central administration budget deficit to GDP was revised from 1.3% to 1.6%. The appreciation in US dollars against

TRY under the effect of the global developments broke successive records upon the election of Donald Trump. While the Central Bank of the Republic of Turkey put various decisions into implementation in order to decelerate the rapid increase in foreign exchange rates, the call to support TRY has gained support from citizens as well as the public and private sectors. On the other hand, the government announced various reform measures for relieving the real sector, exporter, SME (Small Medium Enterprises) and labour market throughout the year.

**In the year 2016 during which various important economic and political changes were experienced on a global scale, difficulties and uncertainties have increased; and the global growth has maintained its weak and vulnerable outlook. There has been a slowdown observed also in Turkish economy under the impacts of global and regional adversities.**

# Global and Turkish Insurance Industries General Outlook and Expectations

## GENERAL OUTLOOK OF GLOBAL INSURANCE BUSINESS

Although general economic conditions continued to negatively affect the insurance industry in 2016, the insurance premium volume continued to grow also in 2016 thanks to the increased insurance penetration rate and strong growth trends observed particularly in the developing markets.

Global insurance industry interacting with the global macroeconomic and financial environment was adversely affected by the weak economic growth, low inflation rates, volatile financial markets and low interest also in 2016. Premium increases since the crisis have continued to remain below the pre-crisis levels in general. Technical profitability is under pressure; and the prolonged low income environment especially depreciates the capitals of the companies offering long-term life insurance products. Non-life branches are subject to the steady market conditions particularly in the developed economies.

According to Swiss Re data, the insurance premium volume in the world has increased by 5.4% in life insurances and 2.4% in non-life branches in 2016.

The global non-life premium production further slowed down compared to the 3.0% growth in 2015 and displayed a growth by 2.4%. The premium increase in

developed economies fell from 2.5% to 1.7% due to the weak economic growth and low prices in business insurance products. In the developing markets, non-life premium production displayed a somehow higher performance with a rate of 5.3% in 2016 compared to the previous year; but it remained quite below the 8% growth observed between 2010-2014. The growth in the developing markets is mostly caused by the motor vehicle insurances accounting for nearly 60% of the total non-life market in such markets.

The investment incomes of the insurance companies operating in non-life branches are declining due to the decreased interest rates. According to the forecasts of the Insurance Information Institute, the net investment incomes of non-life insurance companies in the USA which were recorded as 4.5% in 2007 and 3.6% in 2015 have fallen to 3.1% in 2016. Policy and pricing issues become even more important in an environment with gradually decreasing interest incomes.

There has been a decline in premium prices in the non-life insurance market and branches depending on the increased competition and stagnant economic conditions all around the world. By the third quarter of 2016, the decline in business insurance prices observed

for 14 successive quarters has continued (-3.6%). The relaxation in the market also creates pressure on technical profitability, making it much more difficult to attain.

As for life insurances; it is estimated that the global premium production that increased by 5% in the previous year has grown by 5.4% in 2016. While the premium increase in developed economies fell from 3.4% to 2% in 2016, the developed economies of Asia-Pacific region and the developing Asian countries have been the main driving force behind the global life insurance sector. Considering merely the developing economies, it is estimated that the premium increase in life insurances which was at the level of 13.2% in 2015 realized as 21.1% in 2016.

In life insurance sector, the premium increase is expected to get stronger compared to non-life branches in the following years. According to the report by Swiss Re, new markets providing a positive outlook with a stable economic growth, increased population, urbanization and the rising middle class will be the main driving force behind the life branch that is expected to grow by 4.8% in 2017 and 4.2% in 2018. China will continue to make strong contributions in the insurance industry with its insurance penetration ratio expected to increase from 3% (2014) to nearly 5% until 2020.

The prolonged low-interest environment in developed economies has continued to remain as one of the most important issues for life insurance companies also in 2016. Low interest rates as well as the gradually decreasing bond yield following Brexit have decreased investment incomes and impaired capital value and more importantly, profitability.

The surveys and researches conducted among insurance companies show that legal regulations constitute the most alarming risk factor for the industry in addition to low interests. The difficulties of adaptation to new regulations and extra costs that will arise during such adaptation process cause anxiety in the sector. Enforced in the European Union states in this context as of 1 January 2016,

Solvency II brings forth much more sophisticated and comprehensive regulations. On the other hand, natural disasters increased by global climate changes and the cyber risks that may result from software bugs and data security violation, etc. are the main sources of concern for the sector.

## GLOBAL DAMAGES

2016 has been a year during which numerous destructive earthquakes and global warming-related damages were frequently experienced. The losses caused by natural disasters in 2016 reached the highest figure of the last four years with an amount of 175 billion dollars; the portion of 50 billion dollars (nearly 30%) of such losses were covered by insurance companies. The earthquake experienced in Japan, the flood that occurred in China, the hurricanes in the USA and a series of storms in Europe and forest fires in Canada had been the factors increasing the losses caused by natural disasters.

The two earthquakes that happened in Kyushu Island in the Northern Japan in April were the most costly ones among the natural disasters that happened in 2016. While the said earthquakes caused a loss of 31 billion dollars, it was understood that less than 20 percent of the loss was insured. The earthquake in Japan was followed by the floods that happened in China in June and July and caused a loss of nearly 20 billion dollars. It was recorded that nearly 2 percent of the loss in China was insured.

**Global insurance industry interacting with the global macroeconomic and financial environment was adversely affected by the weak economic growth, low inflation rates, volatile financial markets and low interest also in 2016.**



Hurricane Matthew that occurred last year in the USA and devastated Caribbean islands in Haiti has been considered among the most destructive events of the year causing a loss of 10.2 billion dollars.

#### INSURANCE IN TURKEY

Total insurance premium production in 2016 increased by 30.5 percent compared to the previous year and reached TRY 40 billion 487 million. Of such premium production, the portion of TRY 35 billion and 448 million was obtained from elementary branches while the portion of TRY 5 billion and 39 million was obtained from life insurances. The growth rate in non-life branches was 30 percent while the growth rate in life insurances approached to 34 percent.

The industry that displayed a real growth rate of 10 percent in 2015 realized a 20.2 percent real growth in 2016. With 72.7 percent nominal growth in premium production, the compulsory motor third party liability (Traffic) insurances that reached the production figures of TRY 12 billion and 931 million maintained its locomotive role in 2016. The growth rate of the land vehicles branch (Motor Vehicle Own Damage Insurance) remained at a relatively limited level and was realized as 11.2 percent. The growth rates by main branches were recorded as 23.0 percent in sickness/health; 19.6 percent in casualty; 17.5 percent in other lines related to property; 9.9 percent in fire and compul-

sory earthquake and 7.7 percent in general liability branch.

Despite the slowdown experienced in Turkish economy, insurance industry has been one of the fastest-growing sectors in 2016. Traffic insurances had a great contribution in such growth. The average premium increases observed in the second half of the year 2016 compared to 2015 became balanced and stabilized at a certain level. The trend of increase in premiums has come to a halt as a result of resolution of some problems causing insurance companies to increase their prices through the notifications made in the Highway Traffic Law.

Development of a strategy for reducing the sector's dependency on motor insurances and development of different branches has become one of the frequently debated items on the agenda in 2016. The transition to Solvency II regime that was enforced as of 1 January 2016 within the framework of the alignment with the European Union acquis, which was to be conducted under a healthy plan, has been another important item on the agenda of insurance sector.

As for the future; although the insurance sector is expected to display some slowdown in 2017 due to the decline in the growth rate of traffic insurance, it is still estimated that it will achieve a double-digit growth rate. The adverse impacts of the rapid increase in exchange rates on the claim costs and the general slowdown in economy are expected to be the main factors that will decelerate the growth in the sector.

The table below shows the sector's total premium production results by Treasury branches in 2016 in comparison with the figures of the previous period:

BRANCHES (Milion TRY)	2016	Share (%)	2015	Share (%)	Increase (%)	Real Increase (%)
CASUALTY	1,432	4.04	1,197	4.39	19.64	10.24
SICKNESS/HEALTH	4,226	11.92	3,437	12.60	22.98	13.31
MOTOR VEHICLES PHYSICAL DAMAGE	6,171	17.41	5,551	20.36	11.16	2.42
RAILED VEHICLES	0.01	0.00003	0.02	0.0001	-34.26	-39.42
AVIATION	106	0.30	75	0.28	40.04	29.04
SHIPS HULL AND MACHINERY	178	0.50	177	0.65	0.36	-7.53
GOODS ON TRANSIT	549	1.55	534	1.96	2.88	-5.21
FIRE AND COMPULSORY EARTHQUAKE	4,828	13.62	4,391	16.11	9.94	1.30
GENERAL DAMAGES	3,499	9.87	2,978	10.92	17.49	8.25
MOTOR THIRD PARTY LIABILITY	12,931	36.48	7,486	27.46	72.73	59.15
AVIATION LIABILITY	129	0.36	123	0.45	4.48	-3.73
SHIPS HULL AND MACHINERY LIABILITY	22	0.06	17	0.06	31.98	21.60
GENERAL LIABILITY	816	2.30	758	2.78	7.66	-0.80
CAUTIO	172	0.48	185	0.68	-7.35	-14.63
BOND	30	0.09	29	0.11	4.25	-3.95
FINANCIAL LOSSES	235	0.66	227	0.83	3.65	-4.49
LEGAL PROTECTION	123	0.35	96	0.35	28.43	18.34
ASSISTANCE	3	0.01	3	0.01	-19.92	-26.21
<b>NON-LIFE</b>	<b>35,448</b>	<b>87.6</b>	<b>27,264</b>	<b>87.9</b>	<b>30.0</b>	<b>19.8</b>
<b>LIFE</b>	<b>5,039</b>	<b>12.4</b>	<b>3,761</b>	<b>12.1</b>	<b>34.0</b>	<b>23.4</b>
<b>TOTAL</b>	<b>40,487</b>	<b>100.0</b>	<b>31,026</b>	<b>100.0</b>	<b>30.5</b>	<b>20.2</b>

Despite the slowdown experienced in Turkish economy, **insurance industry has been one of the fastest-growing sectors in 2016. It is estimated that the sector will achieve a double-digit growth rate in 2017.**





# 2016-2018 Strategy Map

Güneş Sigorta identified four strategic directions under its strategic plan shaped to steer its activities in 2016. Four strategic directions and the related subheadings specified in the Strategy Map for 2016-2018 are as follows:

## PROFITABILITY

- » Transition to Efficient Expense Management and Cost Accounting
- » Increasing Technical and Financial Profitability
- » Efficient Collection and Cash Flow Management
- » Growth in Profitable Branches through Effective Portfolio Management

## SUSTAINABLE AND BALANCED GROWTH

- » Increasing the Share of Bancassurance
- » Profitable Growth through Right, Dynamic and Competitive Pricing and Lean Products
- » Efficient Campaign Management
- » Ensuring Business and Technology Continuity

## OPERATIONAL EFFICIENCY

- » Increasing Operational Efficiency through Continuous Change and Development
- » Development of Efficient Risk Management and Control Mechanisms through System Support and Standardized Reporting
- » Transfer of Manually-conducted Business Processes to Digital Environment, making them Measurable and Reportable
- » Development of a Planned and Organized Work Environment in Cooperation

## STAKEHOLDER SATISFACTION AND LOYALTY

- » Increasing Employee Loyalty and Motivation
- » Increasing Satisfaction and Loyalty of Customers, Agencies and Business Partners
- » Increasing Brand Awareness
- » Upgrading the Channels of Direct Communication with Customers up to the Call Center Standard

# 2016 in Güneş Sigorta

## ORGANIZATIONAL STRUCTURING PROJECTS

- » General Accounting Department was restructured as General Accounting and Financial Reporting Department. In addition, the Fund Management Department was closed down and connected to the General Accounting and Financial Reporting Department.
- » Istanbul Claims Management Department was renamed as Claims Control and Operation Department; Claims Control and Training Department was closed down and Logistics and Supply Management Department was established.
- » Strategic Planning and Management Systems Development Department and Project Management Office and Demand Management Department were combined into the Strategy, Project and Demand Management Department positioned under and reporting to the Assistant General Manager for Strategy and System Management.
- » Corporate Architecture Department connected to the Information Technologies Group Management was closed down.
- » Agricultural Insurances Department was converted into a unit and positioned under the Non-Auto Insurances Department together with its existing personnel.
- » Customer Relations, Claims Information Center and Health Customer Services Units were combined under Customer Relations Unit connected to the Marketing Department.

- » Health Insurances Sales Department was established as a department positioned under and reporting to the Assistant General Manager for Marketing and Sales Management.

## RESTRUCTURED PROCESSES, PROCESS IMPROVEMENT AND IT APPLICATIONS

### Creation of Online Traffic Policy Proposal Screen

A project was developed offering the capability to give offers for traffic product through receiving vehicle and insured details over Güneş Sigorta website. Similarly, studies were conducted for creating traffic product proposals also over the Insurance Information and Monitoring Center (IIMC).

### Integration of Legal Files with Document Management System (DMS)

Within the scope of our objective of increasing operational efficiency, a digital archive was created by loading legal files into Pusula system; thus making such files accessible over the system.

### Business Continuity Management

Business Continuity Management System was put into implementation in order to ensure service continuity due to the business requirements, insured satisfaction and management's expectations. Business Continuity Management



THE COMPANY  
ACHIEVED A MORE  
EFFICIENT STRUCTURE  
THROUGH THE  
ORGANIZATIONAL  
REGULATIONS MADE IN

2016

refers to the entirety of processes and plans ensuring continuity of an organization's critical business functions in case of a failure or disaster, regardless of its type and reason. In this context, our company's critical business processes were identified; and business recovery plans were prepared for such critical business processes, which would be implemented in case of a business disruption. Risk analyses of critical processes were conducted using the risk analysis digitalization model developed as a tailor-made model for the organization. The business continuity plans prepared as such were evaluated in terms of existence, accuracy, quality, and applicability; and drills were conducted in order to ensure that such plans yield the desired results when implemented. In addition, trainings were organized in order to inform the personnel before the incident and to increase their awareness.

#### Migration of Health to Pusula

The health application running on IT Human system was migrated to Pusula system and it was ensured that the reporting could be conducted over Armada.

#### Reassurance Management

All reassurance processes were reviewed under the scope of the project; and the deficiencies and areas for improvement in the current applications and system were identified.

#### Ship Data Integration

In order to eliminate the controls manually conducted for checking various ship data required pursuant to reassurance agreements and the related entries, it was ensured that ship data could be automatically retrievable thanks to an

international database integrated with Pusula system.

#### Establishment of MASAK (Financial Crimes Investigation Board) Authorization Structure

Systematic authorization mechanisms were established in order to control proper receipt of the required documents for the policies above TRY 20,000 under the scope of legal compliance activities and it was ensured that the related reports could be arranged duly.

#### e-Invoice Pusula Integration

It was ensured that e-invoices sent to our Company could be filtered according to various rules, transferred to Pusula and distributed to the related units and then accepted or rejected, and if necessary, return invoices could be issued.

#### Voice Recording System

A voice recording system is used in order to record all telephone calls made with customers under the statutory legislation. Investments were made under the scope of the project and the system and software used were completely renewed in order to meet increasing needs and to upgrade the technology.

#### Information Security Enhancement Project

Increased cyber attacks and complexity in line with the diversity of information security risks and increased use of technology necessitate extra security measures in addition to the traditional security measures. Under the scope of the project, a series of security measures were put into implementation against increased information security risks and information security enhancement activities were conducted.

#### Pusula Architectural Infrastructure Improvement Project

Under the scope of the project initiated to meet the capacity requirement and to ensure that Pusula application used and developed as the basic insurance software under the structure of the Company could meet the increasing requirements of agencies and personnel and respond to the upgrades made by

them; the software infrastructure and middle-tier software were changed. Upon completion of the 1st Phase of the Project, hardware and software installations were completed.

#### Firewall Infrastructure Improvement Project

It was decided to replace the two units of servers running in a cluster structure in the infrastructure of the firewall system ensuring the border security control of the Company due to expiry of their technological life and in order to allow them to meet the increasing capacity requirement. Upon transition to appliance architecture under the project, two units of new devices were positioned and then their versions were upgraded.

#### Network Infrastructure Improvement Project

The data and voice lines ensuring inter-regional communication in our Company's network infrastructure were switched to fiber connection. Active architecture was widely deployed in order to ensure cost advantage, technological upgradability and flexibility. It was aimed to switch to a full clustered architecture by increasing the line capacities. In addition, technological investments were made under the scope of the project by renewing the hardware used.

#### Data Center Infrastructure Improvement Project

Activities were conducted to improve the infrastructure components of General Management Data Center where our company's information systems are positioned. In this context, the equipment like cables and cabinets used in the infrastructure were replaced and their capacities were increased. In addition, power infrastructure was also improved and its capacity was increased.

#### Management Information Systems and Improved Reporting Projects

A study for customer deduplication and data cleaning was completed under the scope of the CRM Project; and thus, customer segmentation to be used in tariffs was achieved. It was ensured that both departmental targets and personal tar-

gets could be monitored and reported in line with the corporate strategies. The analytical reports of Financial Affairs, Health, Legislation and Risk Inspection departments were started to be published over Armada, our business intelligence platform.

The Performance Management System (PMS) application developed by the Information Technologies Group Management in order to improve internal processes and to ensure planning and performance measurement was also started to be used by the Management Information Systems Department (MIS).

#### IMPORTANT PROJECTS TO CONTINUE AFTER 2016

- » Integration of Campaigns and Applications with Pusula System and Policy-Based Monitoring
- » Arrangement related with Setoffs under Claim Payments
- » Recourse – Legal Integration
- » Purchasing Application
- » Sending Agency Account Statements over the System via KEP (Registered Electronic Mail)
- » Policy Cancellation due to Loss
- » Non-Auto Expert Performance Report

#### MARKETING & SALES ACTIVITIES, CAMPAIGNS

Within the scope of the strategy for increase and growth in profitable branches and products, applications and campaigns for targeted products oriented towards distribution channels and sales teams were organized; and they were efficiently managed and followed up also in 2016. Business Fire Application, Housing Campaigns, Personal Accident Campaigns, Motor Own Damage Insurance Campaigns and Agriculture Campaign were among the campaigns held in 2016.

The "Agency Club" application determined as a result of annual evaluation of our agencies by the criteria such as their portfolio structures, profitable branch



#### INCENTIVE FOR AGENCIES

TRIPS TO PRAGUE, BELGRADE AND BUDAPEST WERE ORGANIZED FOR THE AGENCIES REALIZING THE TARGET PRODUCTIONS.

**In 2016, Business Continuity Management System was put into implementation in order to ensure service continuity in case of a failure or disaster.**

productions, renewal rates, profitability and recourse/collection was introduced in 2015; and the agencies won special services and rewards depending on their club membership that they belong to. A trip to Prague (Czech Republic) was organized for our diamond agencies between the dates of 2-5 September 2016.

Our agencies fulfilling the targeted production in the Housing Campaign which was effective between 1 February-31 March 2016 joined the trip to Belgrade (Serbia) organized in July. In addition, the agencies fulfilling the targeted productions in the Personal Accident Campaign which was effective between 1 April-31 May 2016 were rewarded with a trip to Budapest (Hungary) organized in October.

#### NEW PRODUCT AND TARIFF DEVELOPMENT STUDIES

##### My Passwords are Secure

Aiming to secure our insured people's risks that may arise from the use of technology, our Company has developed "Şifrelerim Güvende" (My Passwords are Secure) product in order to ensure that economic losses arising from theft or unauthorized access to personal passwords through technological methods or physical threats or as a result of purse-snatching events that may occur around ATMs are secured up to a certain limit.

##### Vakıf Katılım Comprehensive Workplace and Vakıf Katılım Comprehensive Home

Güneş Sigorta signed an agency agreement with Vakıf Katılım in February 2016. In this context, "Vakıf Katılım Comprehensive Home" and "Vakıf Katılım Comprehensive Workplace" insurance products specific to Vakıf Katılım were developed and put into force in July 2016.

##### Gift Workplace, Home, Personal Accident and Household Appliances Insurance

Collaborations were established with the companies in different sectors in order to widely extend insurance awareness and to increase insurance product ownership; to this effect, Gift Workplace and Home and Personal Accident and Household Appliances Insurance products with

a "first loss at limited coverage" were developed in order to secure the risks that the insured people may face under the scope of the project.

#### HUMAN RESOURCES APPLICATIONS

Güneş Sigorta organized various events and participated in various organizations also in 2016 in order to increase its employees' motivation and to develop a team spirit and sense of belonging among its employees.

##### Güneş Sigorta Sailing Team

Founded in 2007 with the participation of Güneş Sigorta employees, Güneş Sigorta Sailing Team continued to achieve successes in 2016.

Having completed in the first place 2016 TAYK-Viaport Fahir Çelikbaş Trophy IRC 3 comprising six competitions, Güneş Sigorta Sailing Team has displayed a successful performance this year thanks to the perfect union and communication coordination of the team as well as their patient and devoted works.

##### "I Thank You" Competition

"I Thank You" application duly structured to allow Güneş Sigorta employees to thank to each other over internet portal in "Team Work, Transparency, Effective Communication and Performance" categories was continued also in 2016. In addition, Agencies also presented their thanks in the "Customer Focus, Establishment of Positive Business Relationships and Production of Rapid and Efficient Solutions" categories.

##### Arts of Self Defense Training

A training on healthy life and self-defense techniques was started to be provided by our internal trainers to employees at the General Management building on Mondays and Thursdays.

##### Democracy and Martyrs Football Tournament

Güneş Sigorta participated in Democracy and Martyrs Football Tournament (BASS Football Tournament) organization in the period of September-December 2016. The organization held with the participation of the football teams comprising the

company employees only was conducted as a funny organization during which the companies both played sports every weekend and relieved the tiredness of the week for a period of 3 months. Güneş Sigorta Football Team completed the tournament as the champion.

##### Tennis Event

Güneş Sigorta participated in the International Insurance Tennis Tournament organized by Milli Reasürans. The 29th round of the tournament took place at Mitaş-Suadiye Sports Complex with the participation of 64 competitors in total, including 30 local and 34 foreign players from 41 companies.

##### Eurasia Marathon

Güneş Sigorta employees participating in the 38th Intercontinental Istanbul Eurasia Marathon for a healthy life enjoyed Istanbul while they were passing from Asia to Europe. Güneş Sigorta employees have run for the social responsibility projects organized by "Adım Adım" (Step by Step).

#### BEING A LEARNING AND DEVELOPING ORGANIZATION

##### Seminars organized for Güneş Sigorta Employees

At Güneş Sigorta, various activities are conducted to contribute in employees' development and motivation in accordance with its Human Resources strategy. In 2016, the company continued to organize seminars for Güneş Sigorta employees in order to allow them to spend lunch breaks more productively:

- » Private Pension Fund Management Seminar: The seminar dealt with the theme of fund management in Private Pension System.
- » Arts of Self-Defense Seminar: The seminar emphasized the importance of self defence.

##### Trainings

Various training and development programs are implemented in line with Güneş Sigorta's needs and considering employees' potentials and preferences; thus, equal and enriched career opportunities are offered to all employees. Training programs organized by Güneş

Sigorta includes Orientation, Basic Insurance Business trainings, Technical Branch trainings, Risk Inspection in-class trainings, Legislation trainings, KEP trainings, First Aid training, Wrong Insurance Practices for Insurance Companies screen training, Pusula screen trainings, MA-SAK-Prevention of Laundering Proceeds of Crime and Terrorism Financing in-class and screen trainings, Competition Law Compliance Program in-class and screen trainings, First 72 Hours in case of Disasters in-class training, BIM Assistance Application Utilization screen training, Microsoft Outlook and Lync screen training, Information Security Basic screen training and Information Security Awareness in-class and screen training exclusively provided for IT personnel, Emergency Management and Fire screen training, Basic Insurance Business Screen Training, Basic Occupational Health and Safety in-class and screen training, Internalization and Comprehension of Competencies Screen Training, Business Continuity Management Fundamental Concepts in-class and screen training, Basic SQL in-class trainings, Agency Orientation screen training for Agency personnel, Collection in-class and screen trainings, Health in-class and screen training, and insurance procedures trainings for Vakıfbank personnel. Personal Development Trainings orga-

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## NUMBER OF TRAINING DAYS

THE COMPANY CONTINUED TO PROVIDE INTENSIVE TRAININGS FOR GÜNEŞ SIGORTA, BANK AND PRIVATE AGENCY EMPLOYEES IN 2016

#### 2016 TRAINING PROGRAM (TECHNICAL AND PERSONAL DEVELOPMENT TRAININGS) / CLASSROOM TRAININGS

##### IN CLASS TRAININGS

Training Target Group	Total Training Number	Total Training Day Number	Total Participant Number
Güneş Sigorta Employees	94	375	1,253
Bank Employees	23	123	2,251
Private Agency Employees	26	74	4,573
<b>Total</b>	<b>143</b>	<b>572</b>	<b>8,077</b>

##### ONLINE TRAININGS

Training Target Group	Total Number of Training	Total Number of Participants
Güneş Sigorta Employees	17	958
Private Agency Employees	9	6,770
<b>Total</b>	<b>26</b>	<b>7,728</b>



# 30

## QUALITY AUDITORS

30 QUALITY AUDITORS IN TOTAL  
HAVE WORKED UNDER THE  
STRUCTURE OF THE COMPANY  
IN 2016

nized provided for Güneş Sigorta employees in 2016:

- » Executive Training
- » Communication Training
- » Arts of Self Defense Training

### ACTIVITIES CONDUCTED WITHIN THE SCOPE OF QUALITY MANAGEMENT SYSTEM

Within the scope of the Quality Management System (ISO 9001:2008) revision project, existing procedures, forms, job descriptions and work flows were updated. As a result of the audits conducted on 8-9 March 2016, ISO 9001:2008 Quality Management System and ISO 10002 Customer Satisfaction Management System certificates were renewed.

There were 30 quality auditors in total under the structure of the company in 2016; and 10 audits were conducted under the scope of Quality Management System Process-Based Internal Audits in 2016.

### INTERNAL CONTROL AND RISK MANAGEMENT ACTIVITIES

Internal Control and Risk Management Department was established within the framework of the principles defined in the "Regulation on the Internal Systems of Insurance, Reinsurance and Pension Companies" published by the Republic of Turkey Prime Ministry Undersecretariat of Treasury in the Official Gazette no. 26913 dated 21 June 2008.

The purpose of the Internal Control System is to ensure protection of company assets, execution of activities in an effective and efficient manner in line with the laws and other related legislation as well as in-house policies and rules and insurance practices, and to guarantee the reliability and integrity of accounting and financial reporting system and timely availability of information.

The purpose of Risk Management System is to ensure identification, measurement, monitoring and control of the risks that the company is exposed to, through

the policies, application procedures and limits determined in order to monitor, manage, and if necessary, change the risk and return structure of the future cash flows of the company, and thus, the nature and level of its activities.

At Güneş Sigorta, Internal Control and Risk Management Department conducts its activities by directly reporting to the General Manager. Internal Control and Risk Management Department informs the Early Risk Detection Committee of its activities conducted by it.

### INTERNAL CONTROL PROCESSES

Control activities are conducted within the framework of the Internal Control Plan that was put into effect after its approval by the General Manager. During 2016, internal control activities were carried out in relation to the issues including production, technical, claims, reinsurance, accounting and information technologies processes. Within the scope of such activities conducted, the efficiency of current controls in the processes and the compliance of activities with domestic-international legislation were evaluated. The actions that must be taken against the risks identified by the Internal Control Unit are effectively monitored over the system.

### EXPLANATIONS REGARDING PRIVATE AND PUBLIC AUDITS

Issue-based inspections and audits were conducted under the structure of Güneş Sigorta by the Undersecretariat of Treasury Insurance Inspection Board during 2016. The Insurance Inspection Board conducted studies related with management, organizational structure and internal systems within 2016. Subject to subsidiary inspections periodically conducted by the Chairmanship of Inspection Board of Türkiye Vakıflar Bankası T.A.O.; Güneş Sigorta also underwent COBIT audit conducted by the said department in 2016.

### INFORMATION ON THE COMPANY'S ACQUIRED SHARES

The Company does not have its own shares that it has acquired.

### LAWSUITS FILED AGAINST THE COMPANY AND POSSIBLE CONSEQUENCES

The information regarding the lawsuits filed against the Company and their possible consequences is provided under the "Risks" heading in the footnote no. 42 to the financial statements.

### TRANSACTIONS EXECUTED BY THE COMPANY WITH THE RISK GROUP IT IS INVOLVED IN

Güneş Sigorta provides all insurance transactions for the companies within the risk group in which it is involved within the framework of its responsibility of services provided for third parties. All explanations related with the transactions executed by the Company in 2016 with the risk group that it is involved in are provided in the footnote no. 45 to the financial statements.

### LOYALTY REPORT FOR THE TRANSACTIONS MADE WITH THE PARENT COMPANY AND SUBSIDIARIES

In the transactions made with the parent company Türkiye Vakıflar Bankası T.A.O. and the group of companies that it is included in, Güneş Sigorta A.Ş. used the most appropriate method, i.e. the "Comparable Price Method" for determination of compliance with the arm's length principle. There is no loss related with the transactions in 2016.

### AMENDMENTS MADE IN THE COMPANY'S ARTICLES OF ASSOCIATION

Within the Company's Articles of Association, Article 7 entitled "Capital and Share Certificates" was amended in relation to the capital increase process; the articles of association was registered together with the said amendment on 26 December 2016 and published in the Trade Registry Gazette on 30 December 2016.

### OUR MAIN GOAL, POLICIES AND ACTIVITIES FOR 2017

- » Activities towards simplification of product portfolio and enrichment of product contents will be continued.
- » Activities within the scope of Vakıfbank Bancassurance Project initiated in 2014 and continued in 2015 are still ongoing. In this context, it is targeted to put automatic payment instruction setup into implementation for the selected products in 2017.
- » The activities for migration of processes to electronic environment, which were initiated in 2016, will be given attention also in the upcoming period. With this project, it is targeted to minimize the procedures requiring printed documents by making improvements in the archive management, e-signature and KEP (registered e-mail) and various Pusula processes.
- » It is aimed to review claims, legal and financial affairs management processes and to conduct activities for carrying out such processes over the system as much as possible and for simplification of processes.
- » The infrastructure-related activities for ensuring business continuity in case of a disaster, for which we conducted the related scope and analysis studies in 2016, will be continued.
- » It is aimed to conduct process-related and systematic activities for identification of claim frauds and to make improvements in claims and production processes.
- » Infrastructure activities for takaful insurance were already initiated; and it is aimed to conduct business in this field.
- » It is aimed to review the in-house performance system and to make improvements related with corporate and individual performance management.
- » It is aimed to conduct know-your-customer activities within the company, to establish a CRM system and to integrate it with all the processes of the company.



# Technical Evaluation

## CASUALTY INSURANCES

	2016	2015	Increase (%)
Premium Production	30,042	31,590	-5
Conservation Ratio (%)	74	79	-6
Earned Premium (net) - Thousand TRY	23,776	23,333	2
Losses Incurred (net) - Thousand TRY	(5,905)	2,498	-336
Technical Part Balance - Thousand TRY	8,856	20,356	-56
Loss Ratio (net) (%)	25	-11	36
Technical Balance/ Premium (%)	29	64	-35

In 2016, the premium production in Casualty branch decreased by 5% and amounted to TRY 30 million and 42 thousand. The retention ratio is 74%.

In 2016, net loss ratio in casualty branch was realized as 25%. While the net earned premium amount was TRY 23 million and 776 thousand; net incurred loss was written as TRY 5 million and 905 thousand. The Company's technical section balance in casualty branch decreased by 56% compared to the same period of the last year, totalling TRY 8 million and 856 thousand.

## SICKNESS/HEALTH INSURANCES

	2016	2015	Increase (%)
Premium Production	118,626	115,614	3
Conservation Ratio (%)	100	100	-0.01
Earned Premium (net) - Thousand TRY	121,127	112,472	8
Losses Incurred (net) - Thousand TRY	(86,859)	(71,075)	22
Technical Part Balance - Thousand TRY	(655)	12,194	-105
Loss Ratio (net) (%)	72	63	9
Technical Balance/ Premium (%)	-1	11	-11

In 2016, the premium production in sickness/health branch increased by 3% and amounted to TRY 118 million and 626 thousand. The retention ratio is 100%.

In 2016, net loss ratio in sickness/health branch was realized as 72%. While the net earned premium amount was TRY 121 million and 127 thousand; net incurred loss was TRY 86 million and 859 thousand. The technical section balance in sickness/health branch was recorded as a loss of TRY 655 thousand.

## MOTOR VEHICLES PHYSICAL DAMAGE INSURANCES

	2016	2015	Increase (%)
Premium Production	258,014	267,242	-3
Conservation Ratio (%)	98	98	-0.2
Earned Premium (net) - Thousand TRY	254,752	250,361	2
Losses Incurred (net) - Thousand TRY	(192,447)	(226,525)	-15
Technical Part Balance - Thousand TRY	10,127	(7,573)	234
Loss Ratio (net) (%)	76	90	-15
Technical Balance/ Premium (%)	4	-3	7

In 2016, the premium production in motor vehicles physical damage branch decreased by 3% and amounted to TRY 258 million and 14 thousand. The retention ratio was realized as 98%.

In 2016, net loss ratio in the land vehicles branch was realized as 76%. While the net earned premium amount was TRY 254 million and 752 thousand; net incurred loss was TRY 192 million and 447 thousand. The Company's technical section balance in land vehicles branch increased by 234% compared to the previous year and yielded a profit of TRY 10 million and 127 thousand.

## AVIATION INSURANCES

	2016	2015	Increase (%)
Premium Production	68,709	44,007	56
Conservation Ratio (%)	0	0	0
Earned Premium (net) - Thousand TRY	3	47	-94
Losses Incurred (net) - Thousand TRY	2	14	-85
Technical Part Balance - Thousand TRY	(525)	(517)	2
Loss Ratio (net) (%)	-84	-30	-54
Technical Balance/ Premium (%)	-1	-1	0.41

In 2016, the premium production in aviation branch increased by 56% and amounted to TRY 68 million and 709 thousand.

No production is retained in the aviation branch; and the technical section balance in the aviation branch yielded a loss of TRY 525 thousand.

#### SHIPS HULL AND MACHINERY INSURANCES

	2016	2015	Increase (%)
Premium Production	19,984	16,263	23
Conservation Ratio %	9	7	2
Earned Premium (net) - Thousand TRY	1,430	1,065	34
Losses Incurred (net) - Thousand TRY	(1,758)	(584)	201
Technical Part Balance - Thousand TRY	(21)	899	-102
Loss Ratio (net) %	123	55	68
Technical Balance / Premium %	0,1	6	-6

In 2016, the premium production in ships hull and machinery branch increased by 23% and amounted to TRY 19 million and 984 thousand.

While the net earned premium amount was TRY 1 million and 430 thousand in the ship hull and machinery branch; net incurred loss was TRY 1 million and 758 thousand in 2016. The Company's technical section balance in ships hull and machinery branch yielded a loss of TRY 21 thousand.

#### GOODS ON TRANSIT INSURANCES

	2016	2015	Increase (%)
Premium Production	20,824	24,990	-17
Conservation Ratio %	48	34	15
Earned Premium (net) - Thousand TRY	10,047	8,061	25
Losses Incurred (net) - Thousand TRY	(470)	(1,904)	-75
Technical Part Balance - Thousand TRY	6,653	7,922	-16
Loss Ratio (net) %	5	24	-19
Technical Balance / Premium %	32	32	0.2

In 2016, the premium production in goods on transit branch decreased by 17% and amounted to TRY 20 million and 824 thousand. The retention ratio was realized as 48%.

While the net earned premium amount was TRY 10 million and 47 thousand in the goods on transit branch; net incurred loss was TRY 470 thousand in 2016. The Company's technical section balance in goods on transit branch decreased by 16% compared to the previous year, totalling TRY 6 million and 653 thousand.

#### FIRE AND COMPULSORY EARTHQUAKE INSURANCES

	2016	2015	Increase (%)
Premium Production	269,267	251,246	7
Conservation Ratio %	27	25	2
Earned Premium (net) - Thousand TRY	67,136	59,828	12
Losses Incurred (net) - Thousand TRY	(26,004)	(21,646)	20
Technical Part Balance - Thousand TRY	27,887	26,487	5
Loss Ratio (net) %	39	36	3
Technical Balance / Premium %	10	11	-0.2

In 2016, the premium production in fire and compulsory earthquake branch increased by 7% and amounted to TRY 269 million and 267 thousand. The retention ratio was realized as 27%.

In 2016, net loss ratio in fire and compulsory earthquake branch was realized as 39%. While the net earned premium amount was TRY 67 million and 136 thousand; net incurred loss was TRY 26 million and 4 thousand. The Company's technical section balance in fire and allied perils branch increased by 5% compared to the same period of the last year, totalling TRY 27 million and 887 thousand.

#### GENERAL DAMAGES INSURANCE

	2016	2015	Increase (%)
Premium Production	199,334	170,553	17
Conservation Ratio %	8	10	-2
Earned Premium (net) - Thousand TRY	15,779	17,289	-9
Losses Incurred (net) - Thousand TRY	(8,310)	(13,575)	-39
Technical Part Balance - Thousand TRY	19,045	(1,959)	1072
Loss Ratio (net) %	53	79	-26
Technical Balance / Premium %	10	-1	11

In 2016, the premium production in general damages branch increased by 17% and amounted to TRY 199 million and 334 thousand. The retention ratio was realized as 8%.

In 2016, net loss ratio in the other lines branch was realized as 53%. While the net earned premium amount was TRY 15 million and 779 thousand; net incurred loss was TRY 8 million and 310 thousand. The company's technical section balance increased by 1072% and yielded a profit of TRY 19 million and 45 thousand.



#### MOTOR THIRD PARTY LIABILITY INSURANCES

	2016	2015	Increase (%)
Premium Production	269,369	251,927	7
Conservation Ratio %	89	88	0.3
Earned Premium (net) - Thousand TRY	259,320	183,398	41
Losses Incurred (net) - Thousand TRY	(281,650)	(345,048)	-18
Technical Part Balance - Thousand TRY	(52,511)	(194,897)	-73
Loss Ratio (net) %	109	188	-80
Technical Balance / Premium %	-19	-77	58

In 2016, the premium production in the motor third party liability branch increased by 7% and amounted to TRY 269 million and 369 thousand. The retention ratio was realized as 89%.

In 2016, net loss ratio in the motor third party liability branch was realized as 109%. While the net earned premium amount was TRY 259 million and 320 thousand; net incurred loss was TRY 281 million and 650 thousand. The technical section balance in motor third party liability branch yielded a loss of TRY 52 million and 511 thousand.

#### AVIATION LIABILITY

	2016	2015	Increase (%)
Premium Production	68,184	74,435	-8
Conservation Ratio %	0,1	-	0.1
Earned Premium (net) - Thousand TRY	98	-	-
Losses Incurred (net) - Thousand TRY	0,04	14	-100
Technical Part Balance - Thousand TRY	(1,175)	(1,106)	6
Loss Ratio (net) %	-0,04	-	-
Technical Balance / Premium %	-2	-1	-0.2

In 2016, the premium production in the aviation liability branch decreased by 8% and amounted to TRY 68 million and 184 thousand.

There is no retention applied in the aviation liability branch; and the technical section balance in the aviation liability branch yielded a loss of TRY 1 million and 175 thousand.

#### GENERAL LIABILITY INSURANCES

	2016	2015	Increase (%)
Premium Production	26.034	29.500	-12
Conservation Ratio %	14	12	2
Earned Premium (net) - Thousand TRY	3.276	3.860	-15
Losses Incurred (net) - Thousand TRY	(9.396)	(10.927)	-14
Technical Part Balance - Thousand TRY	(4.477)	(5.420)	-17
Loss Ratio (net) %	287	283	4
Technical Balance / Premium %	-17	-18	1

In 2016, the premium production in the general liability branch decreased by 12% compared to the same period of last year and amounted to TRY 26 million and 34 thousand. The retention ratio was realized as 14%.

While the net earned premium amount was TRY 3 million and 276 thousand; net incurred loss was TRY 9 million and 396 thousand. Net loss ratio was realized as 287%. The company's technical section balance in general liability branch yielded a loss of TRY 4 million and 477 thousand.

#### BOND INSURANCES

	2016	2015	Increase (%)
Premium Production	225	-	100
Conservation Ratio %	29	-	100
Earned Premium (net) - Thousand TRY	9	-	100
Losses Incurred (net) - Thousand TRY	(974)	-	100
Technical Part Balance - Thousand TRY	(922)	-	100
Loss Ratio (net) %	11110	-	100
Technical Balance / Premium %	-410	-	100

In 2016, the premium production in bond branch amounted to TRY 225 thousand. The retention ratio was realized as 29%.

While the net earned premium amount was TRY 9 thousand; net incurred loss was TRY 974 thousand. The Company's technical section balance in suretyship branch yielded a loss of TRY 922 thousand.

#### FINANCIAL LOSSES INSURANCES

	2016	2015	Increase (%)
Premium Production	3,453	1,898	82
Conservation Ratio %	20	7	13
Earned Premium (net) - Thousand TRY	441	111	297
Losses Incurred (net) - Thousand TRY	(20)	(2)	833
Technical Part Balance - Thousand TRY	(1,316)	(1,633)	-19
Loss Ratio (net) %	4	2	3
Technical Balance / Premium %	-38	-86	48

In 2016, the premium production in financial losses branch increased by 82% and amounted to TRY 3 million and 453 thousand. The retention ratio is 20%.

While the net earned premium amount was TRY 441 thousand; net incurred loss was TRY 20 thousand. The technical section balance in financial losses branch yielded a loss of TRY 1 million and 316 thousand.

#### LEGAL PROTECTION

	2016	2015	Increase (%)
Premium Production	20,912	9,114	129
Conservation Ratio %	63	63	-0.4
Earned Premium (net) - Thousand TRY	13,330	5,428	146
Losses Incurred (net) - Thousand TRY	2	9	-72
Technical Part Balance - Thousand TRY	6,955	2,357	195
Loss Ratio (net) %	-0,02	-0,2	0.1
Technical Balance / Premium %	33	26	7

In 2016, the premium production in legal protection branch increased by 129% and amounted to TRY 20 million and 912 thousand. The retention ratio is 63%.

While the net earned premium amount was TRY 13 million and 330 thousand; net incurred loss was TRY 2 thousand. The Company's technical section balance in legal protection branch was TRY 6 million and 955 thousand.

#### PREMIUM PRODUCTION

Provided below are the Gross Premium Production results by Treasury branches in 2016 in comparison with the figures of the previous period:

BRANCHES (000 TRY)	2016	Share (%)	2015	Share (%)	Increase (%)
CASUALTY	30,042	2	31,590	2	(5)
SICKNESS/HEALTH	118,626	9	115,614	9	3
MOTOR VEHICLES PHYSICAL DAMAGE	258,014	19	267,242	21	(3)
RAILED VEHICLES	-	-	-	-	-
AVIATION	68,709	5	44,007	3	56
SHIPS HULL AND MACHINERY	19,984	1	16,263	1	23
GOODS ON TRANSIT	20,824	2	24,990	2	(17)
FIRE AND COMPULSORY EARTHQUAKE	269,267	20	251,246	20	7
GENERAL DAMAGES	199,334	15	170,553	13	17
MOTOR THIRD PARTY LIABILITY	269,369	20	251,927	20	7
AVIATION LIABILITY	68,184	5	74,435	6	(8)
SHIPS HULL AND MACHINERY LIABILITY	-	-	-	-	-
GENERAL LIABILITY	26,034	2	29,500	2	(12)
CAUTIO	-	-	-	-	-
BOND	225	0.02	-	-	-
FINANCIAL LOSSES	3,453	0.3	1,898	0.1	82
LEGAL PROTECTION	20,912	2	9,114	0.7	129
ASSISTANCE	-	-	-	-	-
<b>GENERAL TOTAL</b>	<b>1,372,978</b>	<b>100</b>	<b>1,288,379</b>	<b>100</b>	<b>7</b>

## LOSSES PAID

Provided below are the Losses Paid results by Treasury branches in 2016 in comparison with the figures of the previous period:

BRANCHES (000 TRY)	2016	Share (%)	2015	Share (%)	Increase (%)
CASUALTY	4,491	1	2,809	0.4	60
SICKNESS/HEALTH	79,748	11	74,471	11	7
MOTOR VEHICLES PHYSICAL DAMAGE	217,367	29	212,289	30	2
RAILED VEHICLES	-	-	-	-	-
AVIATION	30,938	4	18,191	3	70
SHIPS HULL AND MACHINERY	12,691	2	8,709	1	46
GOODS ON TRANSIT	4,342	0.6	2,086	0.3	108
FIRE AND COMPULSORY EARTHQUAKE	55,604	7	75,320	11	(26)
GENERAL DAMAGES	104,878	14	63,422	9	65
MOTOR THIRD PARTY LIABILITY	205,616	27	215,263	31	(4,5)
AVIATION LIABILITY	10,234	1	10,879	2	(6)
SHIPS HULL AND MACHINERY LIABILITY	-	-	-	-	-
GENERAL LIABILITY	11,423	2	11,960	2	(4)
CAUTIO	-	-	-	-	-
BOND	3,335	0.4	-	-	-
FINANCIAL LOSSES	16,412	2.2	983	0.14	1,570
LEGAL PROTECTION	29	0.00	8	0.001	241
ASSISTANCE	-	-	-	-	-
<b>GENERAL TOTAL</b>	<b>757,106</b>	<b>100</b>	<b>696,391</b>	<b>100</b>	<b>9</b>

## TECHNICAL BALANCE

Provided below are the Technical Balance results by Treasury branches in 2016 in comparison with the figures of the previous period:

BRANCHES (000 TRY)	2016	Share (%)	2015	Share (%)	Increase (%)
CASUALTY	8,856	49	20,356	(14)	(56)
SICKNESS/HEALTH	(655)	(4)	12,194	(9)	(105)
MOTOR VEHICLES PHYSICAL DAMAGE	10,127	57	(7,573)	5	(234)
RAILED VEHICLES	-	-	-	-	-
AVIATION	(525)	(3)	(517)	0.4	2
SHIPS HULL AND MACHINERY	(21)	(0.1)	899	(0.6)	(102)
GOODS ON TRANSIT	6,653	37	7,922	(6)	(16)
FIRE AND COMPULSORY EARTHQUAKE	27,887	156	26,487	(19)	5
GENERAL DAMAGES	19,045	106	(1,959)	1	(1,072)
MOTOR THIRD PARTY LIABILITY	(52,511)	(293)	(194,897)	136	(73)
AVIATION LIABILITY	(1,175)	(7)	(1,106)	1	6
SHIPS HULL AND MACHINERY LIABILITY	-	-	2	(0.001)	(100)
GENERAL LIABILITY	(4,477)	(25)	(5,420)	4	(17)
CAUTIO	0,02	0.0001	-	-	-
BOND	(922)	83	-	-	-
FINANCIAL LOSSES	(1,316)	(7)	(1,633)	1	(19)
LEGAL PROTECTION	6,955	39	2,357	(2)	195
ASSISTANCE	-	-	-	-	-
<b>GENERAL TOTAL</b>	<b>17,922</b>	<b>100</b>	<b>(142,886)</b>	<b>100</b>	<b>(113)</b>



**BRANCH-BASED TECHNICAL PART INCOME TABLE**

I- TECHNICAL PART (000 TRY)	CASUALTY	SICKNESS/ HEALTH	MOTOR VEHICLES PHYSICAL DAMAGE	AVIATION	SHIPS HULL AND MACHINERY	GOODS ON TRANSIT	FIRE AND COMPULSORY EARTHQUAKE	GENERAL DAMAGES	MOTOR THIRD PARTY LIABILITY	AVIATION LIABILITY	SHIPS HULL AND MACHINERY LIABILITY	GENERAL LIABILITY	FINANCIAL LOSSES	LEGAL PROTECTION	TOTAL
<b>A- Non-life Technical Revenue</b>	<b>27,717</b>	<b>128,199</b>	<b>267,921</b>	<b>117</b>	<b>1,296</b>	<b>10,168</b>	<b>84,639</b>	<b>16,868</b>	<b>285,193</b>	<b>116</b>	<b>3,246</b>	<b>53</b>	<b>446</b>	<b>15,726</b>	<b>841,704</b>
Written Premiums (Net)	22,105	118,610	252,762	-	1,826	10,079	73,293	15,959	238,545	98	3,599	64	697	13,172	750,809
Change in Earned Premium Reserves (Net)	1,671	2,517	1,990	3	(396)	(32)	(6,156)	(181)	(26,592)	-	(323)	(55)	(256)	158	(27,652)
Unexpired Risk Reserves	-	-	-	-	(263)	-	-	-	47,367	-	(372)	-	-	-	46,731
Investment Income Transf, to Non-Technical Division	3,815	7,072	6,948	0.4	57	1,483	9,338	1,261	8,164	18	345	-	21	2,396	40,919
Other Technical Revenues	-	-	141	114	-	472	2,371	4	-	-	0,01	-	-	-	3,101
Accrued Recourse & Salvage Revenue (+)	125	-	6,080	-	73	(1,834)	5,793	(176)	17,710	-	(3)	44	(16)	-	27,796
<b>B- Non-life Technical Expend (-)</b>	<b>(18,861)</b>	<b>(128,854)</b>	<b>(257,794)</b>	<b>(641)</b>	<b>(1,317)</b>	<b>(3,515)</b>	<b>(56,751)</b>	<b>2,177</b>	<b>(337,704)</b>	<b>(1,291)</b>	<b>(7,723)</b>	<b>(975)</b>	<b>(1,762)</b>	<b>(8,771)</b>	<b>(823,783)</b>
Paid Damages (Net)	(2,439)	(79,748)	(214,580)	2	(1,515)	(1,928)	(21,975)	(9,012)	(194,411)	0.04	(1,773)	(141)	(3)	(6)	(527,528)
Change in Outstanding Claims Reserves	(3,466)	(7,111)	22,133	(0.05)	(243)	1,458	(4,029)	703	(87,239)	-	(7,624)	(833)	(16)	9	(86,259)
Other Technical Reserve Change	(68)	-	(907)	-	-	-	(3,111)	(353)	-	-	-	-	-	-	(4,438)
Operational Expenses	(12,888)	(41,995)	(64,440)	(644)	441	(3,045)	(27,637)	10,840	(56,055)	(1,291)	1,673	(0.2)	(1,743)	(8,773)	(205,557)
<b>C- Technical Part Balance Non-I (A-B)</b>	<b>8,856</b>	<b>(655)</b>	<b>10,127</b>	<b>(525)</b>	<b>(21)</b>	<b>6,653</b>	<b>27,887</b>	<b>19,045</b>	<b>(52,511)</b>	<b>(1,175)</b>	<b>(4,477)</b>	<b>(922)</b>	<b>(1,316)</b>	<b>6,955</b>	<b>17,922</b>

In 2016, investment incomes decreased by 17% and amounted to TRY 82 million and 850 thousand. The income gained from financial investments amounting to TRY 47 million and 253 thousand corresponds to the largest account under investment incomes. The second highest investment income is comprised of the profit on exchange amounting to TRY 33 million and 102 thousand. Income from lands, building sites and buildings amounted to TRY 2 million and 905 thousand; income from affiliates amounted to TRY 561 thousand; income from participations amounted to TRY 492 thousand and income from other investments amounted to TRY 8 thousand. Expenses for financial assets valuation were recorded as TRY 1 million and 470 thousand.

## INVESTMENT INCOME (000 TRY)

	2016	2015	Increase (%)
1- Income Obtained from Financial Investments	47,253	33,307	42
2- Profits Achieved by Liquidation of Financial	-	-	0
3- Valuation of Financial Investments	(1,470)	3,301	-145
4- Exchange Profit	33,102	37,601	-12
5- Income from Participations	492	8,695	-94
6- Subsidiaries & Income fr. Inst. under Customer Man.	561	-	0
7- Income Obtained from Real Estates and Properties	2,905	17,139	-83
8- Income Obtained from Derivatives	-	-	0
9- Other Investments	8	198	-96
9- Other Investments	-	-	0
<b>GENERAL TOTAL</b>	<b>82,850</b>	<b>100,242</b>	<b>-17</b>

In 2016, investment expenses decreased by 2% and amounted to TRY 89 million and 647 thousand. Investment incomes transferred to technical section amounting to TRY 40 million and 919 thousand constitute the largest account under investment expenses. The loss on exchange was TRY 33 million and 211 thousand. In the same period, depreciation expenses amounted to TRY 7 million and 58 thousand; other investment expenses amounted to TRY 4 million and 688 thousand; and investment management expenses amounted to TRY 3 million and 771 thousand.

## INVESTMENT EXPENSES (-) (000 TRY)

	2016	2015	Increase (%)
1- Investment Management Exp. Inc. Interest (-)	(3,771)	(3,540)	7
2- Diminution in Value of Investments (-)	-	-	0
3- Loss Incurred Due to Liquidation of Investments (-)	(0,2)	-	0
4- Invt. Income Transf. to Non-Life Technical Part (-)	(40,919)	(52,327)	-22
5- Investment Loss Incurred Due to Derivative Prod.(-)	-	-	0
6- Foreign Exchange Losses (-)	(33,211)	(23,950)	39
7- Depreciation Expenses (-)	(7,058)	(6,370)	11
8- Other Investment Expenses (-)	(4,688)	(5,323)	-12
<b>GENERAL TOTAL</b>	<b>(89,647)</b>	<b>(91,510)</b>	<b>-2</b>

In 2016, the expenses at the amount of TRY 61 million and 887 thousand were written in the Profit and Loss from Other Operations account. The Reserves account with the amount of TRY 59 million and 544 thousand constitutes the largest account under such expenses. The other expense accounts include Deferred Tax Liability Cost at the amount of TRY 2 million and 951 thousand; Other Expenses and Losses at the amount of TRY 1 million and 846 thousand; and Discount Expenses at the amount of TRY 109 thousand. Other Incomes and Profits accounts at the amount of TRY 2 million and 564 thousand constitute the income part.

## F- REVENUES & PROFITS AND EXPENSES & LOSSES FROM OTHER OPERATIONS (000 TRY)

	2016	2015	Increase (%)
1- Provisions (+/-)	(59,544)	(40,892)	46
2- Rediscounts (+/-)	(109)	(498)	-78
3- Special Insurance Account (+/-)	-	-	0
4- Inflation Adjustment (+/-)	-	-	0
5- Deferred Tax Assets (+/-)	(2,951)	10,847	-127
6- Deferred Tax Liability Exp. (-)	-	-	0
7- Other Revenues and Profits	2,564	2,425	6
8- Other Expenses and Losses (-)	(1,846)	(296)	524
9- Prior Year's Revenues and Profits	-	-	0
10- Prior Year's Expenses and Losses (-)	-	-	0
<b>GENERAL TOTAL</b>	<b>(61,887)</b>	<b>(28,414)</b>	<b>118</b>

## INCOME STATEMENT SUMMARY

While the technical income obtained was at the amount of TRY 841 million and 704 thousand; technical expense was at the amount of TRY 823 million and 783 thousand within the fiscal period of 1 January 2016-31 December 2016. As a result, the technical section balance yielded a profit of TRY 17 million and 922 thousand.

As a result of the expenses from other and extraordinary operations at the amount of TRY 61 million and 887 thousand and the investment incomes of TRY 82 million and 850 thousand and investment expenses of TRY 89 million and 647 thousand, which were added to the technical section balance; the net loss for the current period totalled TRY 50 million and 762 thousand.

## INCOME TABLE SUMMARY (000 TRY)

	2016	2015	Increase (%)
A- Non-life Technical Income	841,704	763,253	10
B- Non-life Technical Expense (-)	(823,783)	(906,139)	-9
C- Technical Part Balance Non-life (A-B)	17,922	(142,886)	-113
D- Investment Income	82,850	100,242	-17
E- Investment Expenses (-)	(89,647)	(91,510)	-2
F- Expenses & Losses and Revenues & Profits Incur. Due to Other Operations and Extraordinary Operations (+/-)	(61,887)	(28,414)	118
G- Net Profit / Loss for the Period	(50,762)	(162,569)	-69

# Human Resources Policy

"Team Spirit" is the common ground for Güneş Sigorta employees.

As one of the leading and well-established companies in the insurance sector, our objective is to retain, under our structure, success-oriented employees that will embrace our common values and that enjoy teamwork and are open to personal development.

All employees of Güneş Sigorta have a full command of our company's mission, vision, and quality policy. All employees are aware of the contribution of their jobs to the organizational efficiency of Güneş Sigorta. Everyone works with the sense of team spirit and has remarkable skills for creating innovations.

Considering its employees as its most valuable capital asset, Güneş Sigorta raises its executives under its own roof. It provides insurance formation for exploratory, farsighted, creative young people with problem solving skills.

Güneş Sigorta attaches great importance to provision and development of, particularly, the necessary training as well as the equipment and disciplined procedures for its employees as required for their productivity and considers its employees as its most valuable capital asset.

Güneş Sigorta raises its executives under its own roof. It provides insurance formation for exploratory, farsighted, creative young people with problem solving skills.

Güneş Sigorta Human Resources and Training Department is responsible for all human resources procedures related with its employees including, particularly, recruitment process, training and development activities, performance assessment, career planning, and wage management. In this context; Güneş Sigorta conducts the recruitment process through examinations and/or interviews. The applicant candidate's eligibility for our company and the position and his/her personal characteristics are evaluated. With the understanding that employees are its most valuable asset, Güneş Sigorta attaches utmost importance to training and development activities and accordingly, it offers to its employees the opportunity to develop themselves by receiving the trainings that they need in the administrative, technical and personal development fields.

The goal of Performance Assessment at Güneş Sigorta is to evaluate the performance of individuals within the context of the Company's strategic goals and the institutional and individual goals and competencies, and to ensure that employees work in harmony and the company achieves the desired results. With the promotion exam held once a year at Güneş Sigorta, employees have the opportunity to take a step forward in their careers.

The wages of all employees are paid at the end of every month. There are four bonus payments in a year and a dividend payment decided and specified by the Board of Directors. Employees' wages are increased upon their promotion as they advance in their career and in line with the criteria determined upon mutual agreement reached with the union on a periodical basis. Güneş Sigorta employees are members of Banking and Insurance Workers Union. Representatives were internally assigned in the company to represent the union member employees.

## HUMAN RESOURCE STRUCTURE

Güneş Sigorta has adopted a balanced staff distribution without any discrimination of gender or age; the distribution of our employees by gender, age and educational status by 31 December 2016 is given below.

As a company advocating universal human rights, Güneş Sigorta does not employ child workers. As of 31 December 2016, the number of disabled personnel working in the Company is 11 while the number of ex-convict employees is 1.

## RIGHTS AND BENEFITS

### Working Order

Working hours per week is 40 hours; and the daily working hours start at 08:30 a.m. and end at 05:30 p.m. There is a lunch break between 12:30-13:30; and Saturdays and Sundays are weekends. The processes regarding overtime are handled in compliance with the provisions of the Collective Labour Agreement and Labour Law.

## GENDER DISTRIBUTION

	Male	Female
Number of Employees	323	280
Share (%)	54	46

## AGE DISTRIBUTION

	18-30	30-50	Above 50
Number of Employees	92	493	18
Share (%)	15	82	3

## EDUCATIONAL BACKGROUND DIST.

	High School and Lower	College	University	Master's Degree and Above
Number of Employees	96	71	381	55
Share (%)	16	12	63	9

### Wages and Fringe Benefits

The wages of all our employees are paid on the last day of every month. Union-member and Excluded Base Staff employees are paid bonus payments over their gross base salaries 4 times a year in accordance with the provisions of TIS (Collective Labour Agreement). There is also a dividend payment application decided by the Board of Directors. Our employees' wages are increased upon their promotion as they advance in their career and in line with the criteria determined upon mutual agreement reached with the union on a periodical basis. Our permanent employees (Assistant Managers and lower-ranking titles) are union members and their wages and all their social benefits are determined according to the Collective Labour Agreement that is signed between the employer and the union for 2 years. The composition of the total wages of Union-Member and Excluded Base Staff personnel also include fringe benefits such as heating expenses allowance, travel allowance, kindergarten and child allowance, title and language allowances that are paid in addition to their base salaries.

The company also provides shuttle bus and lunch services for its employees.



Travel allowance is paid to the employees that cannot benefit from the Company shuttle bus service. It is essential that amounts and payment criteria regarding such supports and benefits are to be defined under the Collective Labour Agreement; and the related transactions are executed by the Human Resources and Training Department (İKEM) in accordance with the related principles. Our Union-member and Excluded Base Staff employees are paid social support payments under the titles of birth, death, marriage, moving and natural disaster supports provided that the related applicable conditions are duly documented.

Workplace Doctor services are provided for the staff members of the Headquarters, Istanbul West Regional Office, Istanbul 1st Financial Regional Office, Aegean Regional Office and Aegean-Mediterranean Financial Regional Office.

Occupational health and safety services are also provided in our workplaces located in Ankara and İzmir in addition to our employees at the Headquarters; risk analyses and inspections are conducted and required trainings are provided by our occupational safety specialist in all Regional Offices and Representative Offices.

#### Healthcare Services and Private Pension

Güneş Sigorta employees are covered under comprehensive Private Health Insurance, the premiums of which are

paid by our Company. Our permanent staff members and our subcontractors' employees (excluding part-time employees) are covered under Personal Accident Insurance, the premiums of which are paid by our Company. In addition, all our permanent staff members are covered under Private Pension Insurance.

#### RECRUITMENT AND PLACEMENT ACTIVITIES

Güneş Sigorta conducts the recruitment process through examinations and/or interviews. During this process, the applicant candidate's eligibility for the company and the position and his/her personal characteristics are evaluated. There are 178 persons in total interviewed in 2016; 39 of which have started to work under the structure of Güneş Sigorta.

#### PERFORMANCE MANAGEMENT AND CAREER DEVELOPMENT

Regular performance assessments are conducted at Güneş Sigorta in order to evaluate the performance of individuals within the context of the company's strategic goals and the institutional and individual goals and competencies, and to ensure that the employees work in harmony and the company achieves the desired results. Employees' performance is measured with "Balanced Scorecards" containing the target assessment results on a department, unit and individual basis. In addition, competency-based performance assessment is made once a year in line with the Balanced Scorecard and the successful employees are rewarded.

Güneş Sigorta aims to enable its employees to make the best of their competencies and knowledge and experiences that they have gained. To this effect, trainings are planned for the employees displaying high performance or working in critical positions in order to improve their professional knowledge and competencies. With the promotion exam held once a year at Güneş Sigorta, employees are offered the opportunity to take a step forward in their careers.

Güneş Sigorta prepares training plans in order to improve its employees' professional knowledge and competencies, aiming to enable them to make the best of their competencies and knowledge and experiences that they have gained.

# Sustainability

Global climate change is one of the most important problems that the humanity face in the 21st century. Considered as a problem that may result in very serious socioeconomic consequences due to its adverse impacts on human health and ecosystems, which may even threaten the existence of human generations, climate change has started to be discussed on the top of the international agenda, especially in the recent years.

In order to mitigate the outcomes of this change which has become an important problem in our lives, there are many opinions asserted and hundreds of articles written for a long time now in relation to the measures that may be taken both at the national level and as an individual.

Using some of the assets produced by it for the benefit of society as an expression of its social and environmental awareness since the very first date of its incorporation, Güneş Sigorta attaches importance to the proper use of natural resources, environmental protection and social development issues within the framework of its sustainability principle and still meticulously continues its activities in such fields.

Having also continued to implement difference-making projects at different points of social life through its social responsibility campaigns in 2016, Güneş Sigorta has reviewed its social responsi-

bility projects under the headings of environment and social solidarity.

#### Environmental Responsibility

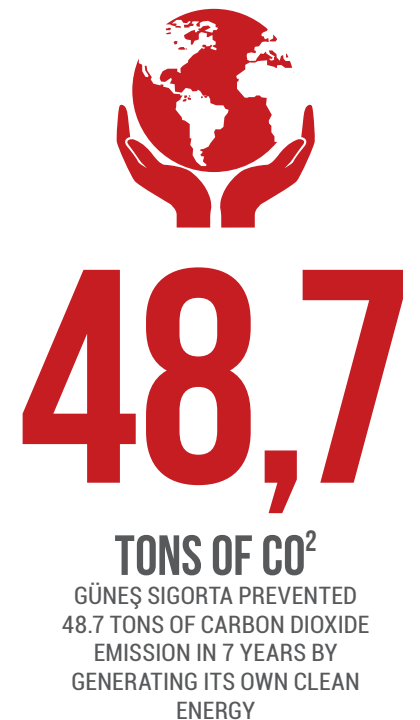
Global warming and climate changes, the universal problems that have always been on top of the agenda of the entire world in the recent years, bring along natural disasters like flood or severe draught causing major loss and damages and gradually increase the need for alternative energy resources.

In this context, aware of the fact that every company should fulfil its responsibilities towards its social stakeholders, Güneş Sigorta has been generating its own electricity since 2009 through its "Solar Power Plant" that it established in its Headquarters building.

Generating 9 MWh of energy per year and thus, meeting some of its electricity needs all by itself thanks to this power plant, Güneş Sigorta emphasizes once again the importance that it gives to the nature through its use of green energy. Having celebrated the 7th year of use of solar energy in March 2016, Güneş Sigorta has saved approximately 61,269.00 kWh of energy so far and prevented the emission of 48,717.40 kg of carbon dioxide.

#### "Earth Hour" Movement

By switching off all the lights in its Headquarters building except for those necessary for security purposes, Güneş Sig-



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## SCHOLARSHIPS

GÜNEŞ SİGORTA CONTINUED TO PROVIDE SCHOLARSHIP SUPPORT FOR THE STUDENTS IN THE PERIOD OF SEPTEMBER 2015-FEBRUARY 2017.

orta supported the “Earth Hour” movement that was conducted under the leadership of the Natural Life Protection Foundation in Turkey (WWF-Turkey) in order to call attention to global climate change and that took place for an hour between 20.30-21.30 on Saturday, the 19th of March.

#### Green Technology (Green IT) Management

Put into implementation for supporting our company’s efficiency and social responsibility strategies, Green Technology (Green IT) Management stands out as one of the environmentalist methods preventing global warming, and thus protecting our world. With the support of company employees, computers and monitors are automatically shut down at evening hours; thus, it is aimed to achieve a 15% reduction in the amount of carbon dioxide arising from computer use and 30% efficiency in energy costs.

#### Importance of Occupational Health and Safety

As Güneş Sigorta A.Ş., currently applicable legislation and required measures in the field of occupational health and safety are put into implementation under the leadership of Occupational Health and Safety Board in order to ensure the safety of our employees and our business premises. In this context, the following activities were conducted in 2016:

- » Occupational Health and Safety Board convened in March, June, September, and December and conducted studies on issues covering the

measures, practices and employees. Risk Assessment study is updated through continuous reviews and revisions.

- » General Occupational Health and Safety Training was provided for 41 newly employed personnel through remote training.
- » The preparations for Emergency Action Plan were reviewed and employees included in the Emergency Action Plan were updated.
- » 1 person received First Aid Certificate Refresher Training on 1 October 2016. 19 people received First Aid Certificate Training on 16-17 December 2016.
- » Machines and equipment were periodically inspected in December; and it was aimed to eliminate the risks that might arise from work equipment.

#### Contribution to Education

Giving scholarships to university students, Güneş Sigorta has provided scholarships within the scope of this program that also covers the children of the employees; i.e. for 115 students during September 2015-February 2016 fall academic semester; for 99 students during March 2016-May 2016 spring academic semester; and for 120 students during September 2016-February 2017 fall academic semester. Aware of the fact that our children will enlighten our future, the Company also donated books and tools and equipment to various schools during the year 2016.

#### Social Solidarity

Women with low income receiving micro-credits under Grameen Micro-Credit Program helping women to step in economic life were included under the coverage of MikroSigorta (MicroInsurance) developed by Güneş Sigorta at the end of 2011. The Micro-Credit Program conducted in 175 countries in total with the purpose of helping low-income women take place in economic life has been implemented in Turkey since 2003.

It is targeted to widely spread Turkey Grameen Micro-Credit Program, jointly conducted with Nobel-winning Prof. Dr. Muhammed Yunus who is the leader of this program, in all cities.

Within the scope of MicroInsurance that celebrated its 5th anniversary in December 2016, insurance coverage against terrorist events and natural disasters like earthquakes are continued to be provided for low-income women together with the accidental death and permanent disability benefits. This insurance provided for women receiving micro-credits and securing not only our entrepreneur women and their lives, but also their families in a certain sense can be taken out by the entrepreneur women receiving micro-credits in consideration for the payment of TRY 14 per year. Güneş Sigorta With this project, Güneş Sigorta both fulfils its responsibility to look after women effort and introduces these services to people that normally do not have any change to benefit from insurance products.

Having diversified its Micro products with MicroHouse (MikroKonut) that it offered in April 2013, Güneş Sigorta allows entrepreneur women with low income to have a change to secure their houses against basic risks for an amount of TRY 14 per year. With MicroHouse, it is aimed to minimize the damages that may arise from the possible risks and to increase the insurance awareness in the society. In 2016, 24,544 people were insured; and an indemnity amount of nearly TRY 275,000 was paid under the scope of MicroHouse policies.

#### Healthy Life Seminars

Seminars were organized for healthy Güneş Sigorta in 2016. As the first stage of the project, a seminar on “10 Mistakes made when Quitting Smoking” was held in the Headquarters building on Wednesday, the 9th of March. This seminar for a “Cigarette-Free Güneş Sigorta” was supported by a 6-hour additional seminar entitled “Allen Carr’s Easy Way to Stop Smoking”. Thus, the desire to smoke was completely removed and the participants were allowed to completely get rid of cigarettes without any need for the will power. Güneş Sigorta employees were then informed about the points to pay attention for a healthy life with the seminars entitled “The Weight I have Dreamt of”, “Stress is the Everybody’s Problem”, “Ten Golden Rules for

Losing Weight” and “What your Pains are Saying to You”; and thus, the information that will enable them to lead a healthy life on a sustainable basis was provided for them.

#### Güneş Sigorta Art Gallery

Having preferred to use the foyer hall in its Headquarters building for cultural and artistic events, Güneş Sigorta opened Güneş Sigorta Art Gallery in 2012. There are 6 exhibitions on average organized every year in the gallery aiming to offer the art lovers the opportunity of visiting the exhibitions free of charge and hosting the exhibitions of various esteemed artists so far.

#### Güneş Sigorta Art Gallery has this time become a Host for our Martyrs and Veterans

Güneş Sigorta Art Gallery organized “Don’t Forget Us” Donation and Aid Exhibition in September 2016 and donated all revenues gained from this group exhibition to Istanbul Anatolian Side Branch of the Turkish Society of Widows and Orphans of Disabled War Veterans and Martyrs.

#### Global Compact

Having signed the United Nations Global Compact in 2011, Güneş Sigorta has once again demonstrated its pioneering role in Turkish insurance sector by becoming the first non-life insurance company signing this compact. Güneş Sigorta continued to embrace the 10 basic principles focusing on Human Rights, Working Standards, Environment and Anti-Corruption as specified in this compact also in 2016.

14 TL

## MICRO-HOUSE

WITH MICRO-HOUSE PRODUCT, THE HOUSES OF LOW-INCOME ENTREPRENEUR WOMEN ARE SECURED AGAINST BASIC RISKS IN CONSIDERATION FOR AN AMOUNT OF TRY 14 PER YEAR.

## “DON’T FORGET US”

GÜNEŞ SİGORTA ART GALLERY HOSTED THE “DON’T FORGET US” DONATION AND AID EXHIBITION IN 2016.



Women with low income receiving micro-credits under Grameen Micro-Credit Program helping women to step in economic life were included under the coverage of MikroSigorta (MicroInsurance) developed by Güneş Sigorta at the end of 2011.



**GÜNEŞ SİGORTA**


**ANNUAL REPORT  
COMPLIANCE STATEMENT**

Regarding our operations for 2016, we hereby present our Annual Report, prepared in compliance with the "Regulation on the Internal Systems of Insurance, Reinsurance and Pension Companies" No: 26606, published by Republic of Turkey Prime Ministry Undersecretariat of Treasury on the Official Gazette dated August 7, 2007, for your attention and approval.

Respectfully yours,

  
Halil AYDOĞAN  
Chairman of the Board of Directors

  
Serhat Süreyya CETİN  
Board Member, General Manager

  
Murat KOYGUN  
Assistant General Manager

  
Uğur SEFİLOĞLU  
Group Manager

**CONVENIENCE TRANSLATION INTO ENGLISH OF  
INDEPENDENT AUDITOR'S REPORT  
ON THE BOARD OF DIRECTORS' ANNUAL REPORT  
(ORIGINALLY ISSUED IN TURKISH)**

To the Board of Directors of Güneş Sigorta A.Ş.

**Auditor's Report on the Board of Directors' Annual Report**

1. We have audited the annual report of Güneş Sigorta A.Ş. (the "Company") for the period ended 31 December 2016.

*Board of Directors' responsibility for the Annual Report*

2. The Company's management is responsible for the fair preparation of the annual report and its consistency with the financial statements in accordance with Article 514 of Turkish Commercial Code ("TCC") No. 6102 and "Regulation on Financial Structures of Insurance, Reinsurance and Pension Companies" ("Regulation") published on the 7 August 2007 dated Official Journal No. 26606 and for such internal control as management determines is necessary to enable the preparation of the annual report.

*Independent Auditor's Responsibility*

3. Our responsibility is to express an opinion on the Company's annual report based on the independent audit conducted pursuant to Article 397 of TCC and the Regulation, whether or not the financial information included in this annual report is consistent with the Company's financial statements that are subject to independent auditor's report dated 22 February 2016 and presented fairly.

Our independent audit was conducted in accordance with accounting principles and standards as set out in the insurance legislation and Independent Auditing Standards that are part of the Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority. Those standards require that ethical requirements are complied with and that the independent audit is planned and performed to obtain reasonable assurance whether the financial information in the annual report is fairly presented and consistent with the financial statements.

An independent audit requires applying audit procedures to obtain audit evidence on the historical financial information. The procedures selected depend on the professional judgement of the independent auditor.

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

PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.  
BJK Plaza, Süleyman Seba Caddesi No:48 B Blok Kat:9 Akaretler Beşiktaş 34357 İstanbul - Turkey  
T: +90 212 326 6060, F: +90 212 326 6050, www.pwc.com.tr Meris Numaramız 0-1460-0224-0500015



*Opinion*

4. Based on our opinion, the financial information in the annual report of the Board of Directors of Güneş Sigorta A.Ş. is consistent with the audited financial statements and presented fairly, in all material respects.

**Other Responsibilities Arising From Regulatory Requirements**

5. Pursuant to subparagraph 3 of Article 402 of the TCC, within the context of ISA 570 "Going Concern", we have not encountered any significant issue which we are required to be reported with regard to the inability of Güneş Sigorta A.Ş. to continue its operations for the foreseeable future.

PwC Bağımsız Denetim ve  
Serbest Muhasebeci Mali Müşavirlik A.Ş.



Talar Gül, SMMM  
Partner

Istanbul, 1 March 2017

Corporate

Governance



# Message from the BoD to Shareholders

The year 2016 has been a year during which developments of historical importance were experienced in terms of economic, social and political aspects both in Turkey and in the world. While the issue of low growth rate has continued to exist all around the world in general; the failure to establish a permanent balance in the global economy despite 30 quarters that have elapsed since the crisis increases the uncertainties. In addition, the UK's decision to leave the European Union as a result of the referendum (Brexit); the presidential elections in the US; the expectations for interest hike decisions to be taken by the American Central Bank; the anxieties related with Chinese economy; the intensive immigration issue caused by geopolitical turmoil and the increasing terrorist attacks have further increased the difficulties in the current conjuncture where radical changes were experienced.

This intensive agenda taking the world by storm has also affected Turkey's economic growth planned for 2016 and Turkish economy displaying an uninterrupted growth for the last 27 quarters has shrunk for the first time by the third quarter of the year. During the process

of appreciation of US dollar in the entire world, there has been a rapid increase in the exchange rates in Turkey in the last quarter of the year and this has also affected Turkish Lira.

Despite all these difficulties, Turkish insurance sector displayed a successful performance in 2016; and succeeded in increasing its premium production by 30.5% to TRY 40 billion and 487 million. Of such premium production, the portion of TRY 35 billion and 448 million was obtained from elementary branches while the portion of TRY 5 billion and 39 million was obtained from life insurances. While the growth rate in non-life branches was 30 percent, the growth rate in life insurances approached to 34 percent.

Being one of the most dynamic and well-established corporations in its sector, Güneş Sigorta succeeded in increasing its premium production by 7% from TRY 1 billion and 288 million to TRY 1 billion and 373 million in 2016. The Company timely fulfilled all of its legal and commercial liabilities throughout the year thanks to its strong financial structure and proved once again its trustworthiness in the eyes of its custo-

mers by making claims payment worth TRY 757 million in total. In 2016, Güneş Sigorta's size of assets reached TRY 1 billion and 756 million by displaying a 14% increase compared to the previous year.

As an important development, our Board of Directors decided in its meeting dated 20 July 2016 to increase the Company's issued capital by an amount of TRY 120 million from TRY 150 million to TRY 270 million. Our application to this effect was accepted by the Capital Markets Board on 14 December 2016 and published and announced in the Official Gazette on 30 December 2016. With such capital increase, Güneş Sigorta has further consolidated its place among the strongest companies of its sector by its financial structure.

Our net loss of TRY 162 million and 569 thousand arising from Traffic Insurances due to the legislative changes in the calculation method of reserves set aside in 2015 and the prolonged court proceedings related with physical injuries has been substantially improved thanks to the special efforts made by our Company, focusing on the products with high profitability, correct pricing policy and innovative products in 2016. While

our Company reached operational profitability again by the third quarter of the year, it disclosed a net loss of TRY 50 million and 762 thousand by the end of the year due to the effect of the first half of the year.

Having taken rapid steps to overcome the structural bottlenecks in the sector through its strong brand and innovative practices, Güneş Sigorta will continue to carry out its activities towards its strategic targets in the new activity year with the support of you esteemed shareholders.

We hereby present our Company's balance sheet and profit and loss statements reflecting the financial situation for 2016 for your review.

Yours sincerely,

**Board of Directors**

# Members of the Board of Directors



**HALİL AYDOĞAN**  
Chairman



**METİN RECEP ZAFER**  
Vice Chairman



**MUHAMMET LÜTFÜ ÇELEBİ**  
Member



**ABDİ SERDAR ÜSTÜNSALİH**  
Member



**AYDIN CEM ASLANBAY**  
Member



**FATİH KÜÇÜKCAN**  
Independent Member



**SERDAR TUNÇBİLEK**  
Independent Member



**SERHAT SÜREYYA ÇETİN**  
General Manager

Aydoğın, born in Afyonkarahisar in 1950, graduated from Department of Management-Finance, Faculty of Economics at İstanbul University in 1976. He started his career as an Assistant Inspector in T. Vakıflar Bankası T.A.O. in 1977, worked as an Inspector between 1980-1983, Assistant Manager of Mecidiyeköy Branch between 1983-1985 and Branch Manager of Kadıköy, Mecidiyeköy, Taksim, İstanbul and Şişli branches respectively between 1985 and 1996. He took a role as Assistant General Manager in T.Vakıflar Bankası T.A.O. between 1996 and 1999 and he worked as General Manager of Vakıf Finansal Kiralama A.Ş. between 1999 and 2000. In addition to his service as a Congressman in the 22<sup>nd</sup> and the 23<sup>rd</sup> parliament representing Afyonkarahisar, Halil Aydoğın, who was a member of SEE (State Economic Enterprises) Committee for two years and member of Plan and Budget Commission for seven years, has been appointed as Chairman of the Board of T.Vakıflar Bankası T.A.O. on January 5, 2012.

Halil Aydoğın, appointed as General Manager of T. Vakıflar Bankası T.A.O. on 29 March 2013 also serves as the Chairman of the Board of Directors of our Company; he is also an Executive Member of the Board of Directors and the General Manager of T. Vakıflar Bankası T.A.O., the Board Chairman of Taksim Otelcilik A.Ş., a Board Member of Türkiye Sınai Kalkınma Bankası A.Ş., and a Board Member of the Foreign Economic Relations Board (DEİK).

Metin Recep Zafer, who graduated from Department of Economics, Faculty of Economics and Administrative Sciences at Marmara University, holds a MA degree on econometrics and doctorate on banking and insurance studies, both received from the same university.

Having taken office in various positions in the banking sector since 1992, Zafer has been working as the Assistant General Manager of Vakıfbank since 13 June 2006. He was appointed as a Board Member of Güneş Sigorta on 9 March 2007 and has been also serving as the Vice Chairman of the Board of Güneş Sigorta as of 22 April 2016.

Graduated from İstanbul University Faculty of Economics, Department of Economics, Muhammet Lütfü Çelebi started his career as the Assistant Inspector at T. Vakıflar Bankası T.A.O. in 1995. Between 1998 and 2001, he served first as an Inspector and then as a Deputy Manager in various branches and units of the bank and between 2011 and 2013, Çelebi has undertaken the task of Presidency at the department of Private Banking.

Since October 4, 2013, he has been serving as the Deputy General Manager of VakıfBank and since March 27, 2015, he is a Member of the Board of Directors of Güneş Sigorta.

Having graduated from the Department of Physics at Karadeniz Technical University, Abdî Serdar Üstünsalih received his master degrees in Information Systems at Gazi University and in Public Administration at Selçuk University Social Sciences Institute. Having started to work as a Software Specialist at T. Vakıflar Bankası T.A.O. in 1991, Üstünsalih worked as a Manager and Head of various branches and units of the bank between the years of 1999-2010. Üstünsalih has been serving as the Head of Banking Operations, Vice Chairman of the Board of Vakıf Enerji A.Ş., and the Auditor of T. Vakıflar Bankası T.A.O. Officers and Servants Retirement and Health and Support Fund Foundation. He has worked in various domestic and international banks, companies, foundations and societies since the very first day of his business career.

Üstünsalih has been a Board Member of Güneş Sigorta as of 15 April 2016.

Having graduated from the Department of Public Administration at Kırıkkale University Faculty of Economics and Administrative Sciences, Aydın Cem Aslanbay worked as a manager in various companies between the years of 2002-2011. Having worked as a Consultant at the Grand National Assembly of Turkey and a Board Member of Press Announcement Association, Aslanbay still serves as the Press and Public Relations Consultant of the Prime Ministry, and a Member of the Audit Board of Press Announcement Association.

Aslanbay has been a Board Member of Güneş Sigorta as of 15 April 2016.

Having graduated from the Department of Business Administration at Ankara Academy of Economic and Commercial Sciences, Fatih Küçükcan started to work as an Inspector at T. Vakıflar Bankası T.A.O. in 1984. Küçükcan worked as an Assistant Manager and Manager in various branches and units of the bank between the years of 1991-2002. He served as an Assistant General Manager at Vakıf Emeklilik A.Ş. in 2002; as the General Manager and a Board Member at Vakıf Finansal Kiralama A.Ş. and Vakıf Deniz Finansal Kiralama A.Ş. between the years of 2003-2007; as an Assistant General Manager at AEGON Emeklilik ve Hayat A.Ş. between the years of 2007-2008; and as an Assistant General Manager, Deputy General Manager and a Board Member at Halk Hayat ve Emeklilik A.Ş. between the years of 2008-2012. He still works as the General Manager at Obaköy Gayrimenkul Geliştirme İnşaat Yatırım Taahhüt San. ve Tic. A.Ş.

Küçükcan has been a Board Member of Güneş Sigorta since 15 April 2016.

Serdar Tunçbilek, graduated from Faculty of Political Sciences, Department of Economics at Ankara University, started his career as Assistant Inspector in T. Emlak Bankası in 1985. After working in different positions in the same bank, he took positions in Banking Regulation and Supervision Agency (BDDK) and Savings Deposit Insurance Fund of Turkey (TMSF) starting from 2001. He worked as Board Member and Audit Committee Member of T. Vakıflar Bankası T.A.O. between July 24, 2007 and March 30, 2014.

Serdar Tunçbilek has been serving Güneş Sigorta A.Ş. as the independent member of Board of Directors since October 31, 2014.

Serhat Süreyya Çetin, who graduated from Ankara University, Department of Sociology, got his master's degree on Business Administration from İstanbul Commerce University. Çetin, who is continuing his doctorate studies in İstanbul Aydın University, started his career at Turkish Airlines by working part-time during his student days. Çetin, who worked in Yapı ve Kredi Bankası A.Ş. in the department of Corporate Banking during 1997-2006, was assigned as the Assistant General Manager Responsible for Financial Affairs in Güneş Sigorta A.Ş. between the years of 2006-2009; and then he served the Company as Assistant General Manager Responsible for Sales and Marketing during 2009-2011.

Serhat Süreyya Çetin has been serving Güneş Sigorta as the General Manager and member of the Board of Directors since February 9, 2011

**BoD AS OF DECEMBER 31, 2016**

Position	Name Surname	Date of Appointment*	Date of Resignation
Chairman	Halil AYDOĞAN	09.04.2013	-
Vice Chairman	Mehmet Emin ÖZCAN	27.03.2015	15.04.2016
Vice Chairman	Metin Recep ZAFER	22.04.2016	-
Member	Metin Recep ZAFER	09.03.2007	22.04.2016
Member	Muhammet Lütfü ÇELEBİ	27.03.2015	-
Member	Abdi Serdar ÜSTÜNSALİH	15.04.2016	-
Member	Aydın Cem ASLANBAY	15.04.2016	-
Member	Mustafa SAYDAM	06.12.2013	15.04.2016
Independent Member	Muzaffer ÖZGÖREN	30.04.2014	15.04.2016
Independent Member	Serdar TUNÇBİLEK	31.10.2014	-
Independent Member	Fatih KÜÇÜKCAN	15.04.2016	-
Member & General Manager	Serhat Süreyya ÇETİN	09.02.2011	-

- : Still continuing

\* Effective dates of inauguration. Reappointed by the General Assembly on 15.04.2016

**MEMBER CHANGES IN THE BOARD OF DIRECTORS**

Mehmet Emin Özcan was appointed as the Vice Chairman of the Board on 27 March 2015 and resigned from his office on 15 April 2016.

Mustafa Saydam was appointed as a Board Member on 6 December 2013 and resigned from his office on 15 April 2016.

Muzaffer Özgören was appointed as an Independent Board Member of Güneş Sigorta on 30 April 2014 and resigned from his office on 15 April 2016.

Metin Recep Zafer was appointed as a Board Member of Güneş Sigorta on 9 March 2007 and has been serving as the Vice Chairman of the Board of Güneş Sigorta as of 22 April 2016.

**REMUNERATION OF BOARD MEMBERS AND SENIOR EXECUTIVES**

In 2016, the total net attendance fee paid to the members of the Board of Directors amounted to TRY 285 thousand and 425. The total amount paid to the senior executives including general

manager, assistants general manager and group managers amounted to TRY 3 million and 739 thousand in total, comprising the expenses such as wages, bonus and title bonus payments, language, travel, meal and fuel allowances, group private pension contributions and other paid benefits, etc.

**BRIEF INFO ABOUT CHAIRMAN AND MEMBERS OF BoD AS OF DECEMBER 31, 2016**

Name Surname	Title	Profession	Educational position	Experience (Years)	Positions in the partnership in the last 5 years	Current Positions Undertaken Outside the Partnership
Halil AYDOĞAN	Chairman	Banker	Undergraduate	40	Chairman	T. Vakıflar Bankası T.A.O. General Manager, BoD Member of Taksim Otelcilik A.Ş. and Türkiye Sınai Kalkınma Bankası A.Ş.
Metin Recep ZAFER	BoD Member	Banker	PhD	25	BoD Member	T. Vakıflar Bankası T.A.O. Assistant General Manager
Muhammet Lütfü ÇELEBİ	BoD Member	Banker	Undergraduate	22	-	T. Vakıflar Bankası T.A.O. Assistant General Manager
Abdi Serdar ÜSTÜNSALİH	BoD Member	Banker	Graduate	26	-	T. Vakıflar Bankası T.A.O. Director of Banking Operations, BoD Member of Vakıf Enerji ve Madencilik A.Ş. and VakıfBank Pension and Health Fund Auditor
Aydın Cem ASLANBAY	BoD Member	Public Relations	Undergraduate	15	-	Prime Ministry Press and Public Relations Consultant and General Directorate of Press Advertising Agency Supervisory Board Member
Serdar TUNÇBİLEK	BoD Member	Banker	Undergraduate	32	Independent Member of BoD	-
Fatih KÜÇÜKCAN	BoD Member	Banker/Insurer	Undergraduate	33	-	Obaköy A.Ş. General Manager
Serhat Süreyya ÇETİN	BoD Member & General Manager	Insurer	Graduate	23	Assistant General Manager	BoD Member of Türk P ve I Sigorta and Tarsim

**PARTICIPATION IN BOARD OF DIRECTORS MEETINGS**

Güneş Sigorta Board of Directors held 49 meetings through the year 2016, on the following dates: 04.01.2016, 05.01.2016, 14.01.2016, 27.01.2016, 29.01.2016, 05.02.2016, 15.02.2016, 22.02.2016, 26.02.2016, 04.03.2016, 11.03.2016, 16.03.2016, 21.03.2016, 22.03.2016, 25.03.2016, 28.03.2016, 22.04.2016, 02.05.2016, 09.05.2016, 10.05.2016, 12.05.2016, 30.05.2016, 10.06.2016, 13.06.2016, 17.06.2016, 30.06.2016, 15.07.2016, 20.07.2016, 29.07.2016, 03.08.2016, 05.08.2016, 08.08.2016, 19.08.2016, 02.09.2016, 30.09.2016, 31.10.2016, 08.11.2016, 28.11.2016, 30.11.2016, 07.12.2016, 30.12.2016.

Muhammet Lütfü ÇELEBİ could not attend the meeting held on 02.09.2016 ve Aydın Cem ASLANBAY could not attend the meeting held on 30.12.2016.



### CORPORATE GOVERNANCE COMMITTEE

Corporate Governance Committee was established on 20 April 2012 in accordance with the provisions set forth in the Capital Markets Board's (CMB) Communiqué Serial: IV, No:56 on Determination and Implementation of Corporate Governance Principles, which was enforced after its publication on 30 December 2011. Pursuant to the requirement to appoint an Investor Relations Manager to the committee pursuant to the Principles of Corporate Governance Communiqué dated 3 January 2014, an Investor Relations Department Manager having an advanced level CMB license was appointed on 30 June 2014 and he

was also assigned as a member of the committee. The committee comprising 1 chairman and 2 members convenes at least quarterly and as required. The chairman of the committee is an Independent member of the Board of Directors. The main duties of the committee are; conducting the required activities to ensure compliance with the Corporate Governance Principles, making suggestions to the Board of Directors to this effect and to monitor the activities of Investor Relations Department and whether Corporate Governance Principles are duly implemented. The committee also functions as the Nomination Committee and Remuneration Committee.

### AUDIT COMMITTEE

Audit Committee was established on 20 April 2012 in accordance with the provisions set forth in the Capital Markets Board's Communiqué Serial: IV, No:56 on Determination and Implementation of Corporate Governance Principles, which was enforced upon its publication on 30 December 2011. The committee is comprised of at least two members and the committee members are selected among the Independent Board members. In principle, the Audit Committee convenes at least quarterly and if and when required, except for compulsory situations.

The Committee works to ensure that the Company's financial and operational activities are conducted in a healthy manner in line with the principles specified herein and in the capital market legislation. The objective of the Committee is to supervise the functioning and efficacy of the Company's accounting system, public disclosure of its financial data and its independent audit and internal systems. In addition, it also ensures that all necessary measures are taken for execution of any kind of internal audits and/or independent audits in a satisfactory and transparent manner.

### EARLY RISK DETECTION COMMITTEE

Early Risk Detection Committee was established on 20 October 2012 in accordance with the provisions set forth in the 1st paragraph of article 378 of the Turkish Commercial Code no. 6102. It was resolved by the Board of Directors in its meeting dated 24 May 2014 that the committee should also function as Early Risk Detection Committee, which was required by the CMB Communiqué Serial:IV No:63. In the committee comprised of a chairman and two members, the Independent Board Member acts as the chairman, and one of the members

acts as the executive assistant general manager.

The Committee is responsible for early detection of the risks that may endanger the presence, development and sustainability of the Company, implementation of the necessary measures and actions in relation to the risks identified, and conducting the activities for risk management purposes; and it evaluates the current situation in a report to be submitted to the Board of Directors every two months and reviews Risk Management Systems at least once a year.

### COMMITTEE MEMBERS AND ROLES

Committees	Committee Members	Position	Committee Role
Corporate Governance Committee	Serdar TUNÇBİLEK	Independent Member	Chairman
	Abdi Serdar ÜSTÜNSALİH	BoD Member	Committee Member
	Fulden PEHLİVAN	Investor Relations Certified Unit Manager	Committee Member
Audit Committee	Serdar TUNÇBİLEK	Independent Member	Committee Chairman
	Fatih KÜÇÜKCAN	Independent Member	Committee Member
Early Risk Detection Committee	Fatih KÜÇÜKCAN	Independent Member	Committee Chairman
	Muhammet Lütfü ÇELEBİ	BoD Member	Committee Member
	Hasan ALTANER	Assistant General Manager	Committee Member

### EVALUATION OF COMMITTEES BY THE BOARD OF DIRECTORS

"Audit Committee", "Early Risk Detection Committee" and "Corporate Governance Committee" were established under the structure of our Company. The Corporate Governance Committee also functions as a "Nomination Committee" and "Remuneration Committee". Committees may also receive any kind of

resources and support from the Board of Directors while fulfilling their tasks. Committees convene at least at the required frequencies under the conditions specified in the legislation and they submit their activity results to the Board of Directors periodically.



# Top Management



**SERHAT SÜREYYA ÇETİN**  
General Manager



**HASAN ALTANER**  
Assistant General Manager



**BİRGÜL DENLİ**  
Assistant General Manager



**MURAT KOYGUN**  
Assistant General Manager



**TAHSİN ORAL**  
Assistant General Manager

Serhat Süreyya Çetin, who graduated from Ankara University, Department of Sociology, got his master's degree on Business Administration from İstanbul Commerce University. Çetin, who is continuing his doctorate studies in İstanbul Aydın University, started his career at Turkish Airlines by working part-time during his student days. Çetin, who worked in Yapı ve Kredi Bankası A.Ş. in the department of Corporate Banking during 1997-2006, was assigned as the Assistant General Manager Responsible for Financial Affairs in Güneş Sigorta A.Ş. between the years of 2006-2009; and then he served the Company as Assistant General Manager Responsible for Sales and Marketing during 2009-2011.

Serhat Süreyya Çetin has been serving Güneş Sigorta as the General Manager and member of the Board of Directors since February 9, 2011.

Hasan Altaner, who was graduated from the Faculty of Business Administration at the Economics and Commercial Sciences Academy of Eskişehir, began his career in the Treaty Service at Güneş Sigorta in 1980 and subsequently served as Reassurance Manager, Reassurance and Transportation Manager and Assistant General Manager Responsible for Technical Services. After 2004, Altaner worked as the Executive Director of Turkey and Iran for Willis Re London in AMETA department; then he worked as Assistant General Manager and Vice General Manager at HDI Sigorta.

Hasan Altaner joined Güneş Sigorta as Assistant General Manager Responsible for Technical Management on May 1, 2009. Upon a corporate restructuring, he became responsible for Vehicle Damage Management on June 1, 2011. As of January 1, 2012, he has been appointed as the Assistant General Manager Responsible for Technical and Damage Management.

Birgül Denli, who graduated from Middle East Technical University(METU), Department of Statistics, received her master's degree from Financial Markets and Derivatives at London Metropolitan University. Having served in various positions in many banks and companies, both in Turkey and abroad, Denli was appointed as the Head of International Finance Department and Correspondent Banking and a member of the board of directors in VakıfBank International AG, Vienna. Denli started to work as Vice General Manager in VakıfBank in 2005 and served as Assistant General Manager responsible for Investment Banking and Treasury.

Having lastly worked in VakıfBank as Vice President Responsible of International Relations and Investor Relations, Birgül Denli was appointed as the Assistant General Manager Responsible for Budget Planning and Investor Relations in Güneş Sigorta, as of July 2, 2012. Denli has undertaken role as Assistant General Manager Responsible for Strategy and System Management by May 21, 2014.

Graduated from Uludağ University Faculty of Economic and Administrative Sciences, Department of Economics, Murat Koygun started working as an Assistant Inspector at Vakıf Bank in 1992. Afterwards, he served as an Inspector in 1995, as the Assistant Branch Manager in Ankara in 1997, Kayseri Branch Manager in 2000, Kolej Branch Manager in 2004, Monitoring and Credit Surveillance Director in 2007 respectively and Koygun was finally appointed as the General Accounting and Financial Affairs Director in 2011.

Certified with TURMOB Financial Consultancy License and Public Surveillance Independent Auditor certificates, Murat Koygun was appointed to the position of Güneş Sigorta's Assistant General Manager Responsible for the Management of Financial Affairs on November 9, 2015.

Having graduated from the Department of Finance at İstanbul University Faculty of Economics in 1992, Tahsin Oral started his business career by working under the structure of İstanbul Revenue Office connected to the Ministry of Finance of the Republic of Turkey. After working for a short while at this office, he joined the Inspection Board of Vakıfbank in 1993. He served as an Assistant Manager in the Credit Cards Group Management, as a Manager and Regional Manager in various branches, and as the Head of İstanbul European and Anatolian Corporate Centers under the structure of Vakıfbank.

He attended the Extension Program at the University of California Berkeley Extension in 1998. Having served as a Board Member at Vakıf International A.G. in Vienna in 2015-2016, Oral assumed an office as the Assistant General Manager for Marketing and Sales Management at Güneş Sigorta on 12 December 2016. Having Certified Public Accountant (CPA) and Capital Market Board (CMB) license certificates, Oral is married with 1 child.

## SENIOR MANAGEMENT AS OF DECEMBER 31, 2016

Position	Name Surname	Date of Appointment*	Date of Resignation
General Manager	Serhat Süreyya ÇETİN	09.02.2011	-
Assistant General Manager	Hasan ALTANER	01.02.2007	09.02.2011
Assistant General Manager	Murat KOYGUN	01.05.2009	-
Assistant General Manager	Deniz KANİJALİ	06.11.2015	-
Assistant General Manager	Birgül DENLİ	17.10.2011	09.12.2016
Assistant General Manager	Tahsin ORAL	02.07.2012	-
Assistant General Manager	Tahsin ORAL	12.12.2016	-

- : Still continuing

### CHANGES IN SENIOR MANAGEMENT

Deniz Kanijali was appointed as the Assistant General Manager responsible for Marketing and Sales Management on 17 October 2011; and resigned from this office on 9 December 2016.

Tahsin Oral was appointed as the Assistant General Manager responsible for Marketing and Sales Management on 12 December 2016.

### INTERNAL AUDITING & INTERNAL CONTROL AND RISK MANAGEMENT

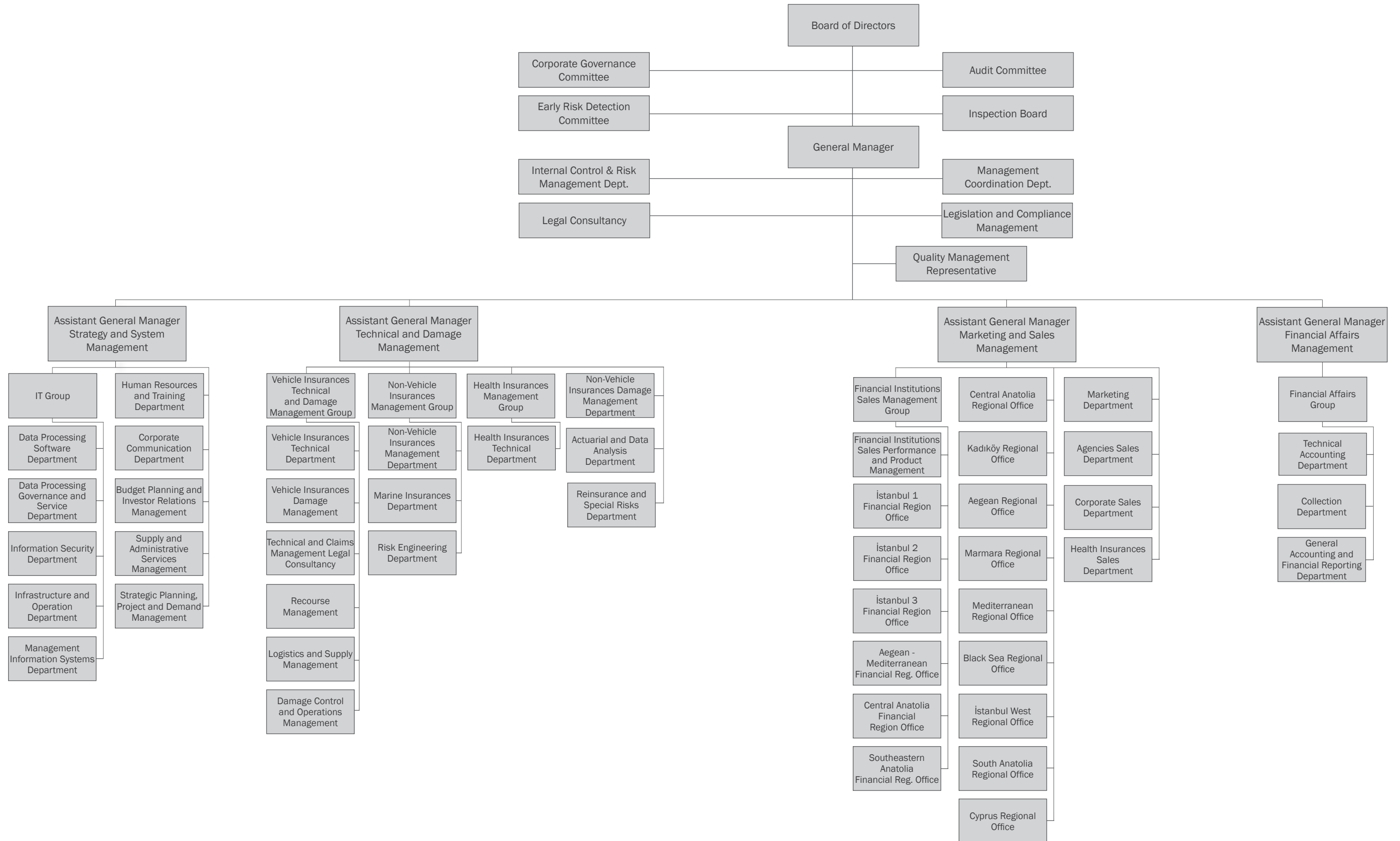
#### Gonca HAZIR President of the Inspection Board

Graduated from the Department of Management at the Faculty of Economics and Administrative Sciences at Hacettepe University in 2006, Gonca Hazır still continues her postgraduate education at Marmara University's Banking and Insurance Institute, Insurance Department. She started her career in 2007 as an Assistant Inspector at Vakıf Bank Inspection Board Chairmanship and she served as an Assistant Inspector and Inspector between 2007 and 2014. On August 18, 2014, she was assigned as the Chief Inspector of Güneş Sigorta Inspection Board Chairmanship. Hazır who has previously been certified with Capital Markets Activities Advanced Level, Credit Rating and Derivatives License Certificates, continues to serve as Güneş Sigorta Inspection Board President since May 13, 2015.

#### İbrahim EROL Internal Control and Risk Management Director

İbrahim Erol who graduated from the Department of Management at METU in 2006, started his career in 2006 as the Assistant Inspector at Fortis Bank Inspection Board. Between 2006-2011, he worked as an Assistant Inspector and Inspector respectively and between 2011-2012, he served as a Senior Inspector at Türk Ekonomi Bankası Inspection Board. Finally, he worked as an Internal Control and Risk Management Assistant Director at Güneş Sigorta. Certified with CIA (Certified Internal Auditor), CISA (Certified Information Systems Auditor), CFSA (Certified Financial Services Auditor), CFE (Certified Fraud Examiner), Capital Markets Activities Advanced Level, Credit Rating and Derivatives License Certificates and METU High Honor Student Certificates, Erol has been serving as Güneş Sigorta Internal Control and Risk Management Branch Manager since November 6, 2015.

# Organization Chart





# Corporate Governance

## Principles Compliance Report

### STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

It has been prepared considering the Principles of CMB Corporate Governance Communiqué published in the Official Gazette no. 28871 dated 3 January 2014. Güneş Sigorta pays utmost attention to avoid any practices contrary to the principles in the Corporate Governance Principles set forth by the Capital Markets Board (CMB).

The Investor Relations Department was founded at the end of 2009, in order to allow shareholders and stakeholders to have access to the current information about the Company in the easiest and most reliable manner and to establish a bridge based on regular communication and trust between the company and potential investors. The Corporate Governance Committee of the Company was founded by 20 April 2012; and it is in charge of monitoring the activities towards transparency, public disclosure and enlightenment of investors, ensuring compliance with corporate governance principles and monitoring many other activities. As required by the Corporate Governance Communiqué, an Investor Relations Department Manager with either CMB Advanced Level License or Corporate Governance Rating Expert License was appointed by 25 June 2014; and the said manager was also assigned as a member of the Corporate Governance Committee.

The Company discloses its activities towards regular distribution information to public, providing ease of access to such information and facilitation of the exercise of shareholding rights via its Corporate Governance Principles Compliance Report. In addition, the policies prepared and the activities conducted for regulating the relationships with stakeholders are disclosed by the company in the said report. The composition structure of the Board of Directors that undertakes the management responsibility of the Company, participations in the board meetings, form of meetings and the committees established and their duties are reported in the report.

While the Company tries to avoid any decisions and practices that may adversely affect the compliance with Corporate Governance Principles during its activities; it pays utmost care and attention to take positive steps for ensuring compliance with the Corporate Governance Principles. It reorganizes its processes and activities in order to prevent any negativity that may be contrary to the principles specified in the Corporate Governance Principles and it endeavours maximum effort for compliance with the Corporate Governance Principles.

among the basic duties of the Investor Relations Department established at the end of 2009 and of the Corporate Governance Committee established on 20 April 2012.

Information and explanations that may affect the exercise of shareholding rights are published on the company's corporate website in a currently updated manner.

With the establishment of Investor Relations Department since the end of 2009, it has been aimed to enable the Company to make progress in terms of corporate governance, and help the Company

achieve a more transparent structure in accordance with the CMB legislation and Corporate Governance Principles. The purpose is to offer the most current and accurate information to investors in accordance with the CMB legislation and Corporate Governance Principles and thus, to establish a long-term relationship with investors by winning their confidence.

The capital structure of the company is published on its website, in its annual reports and the related documents. There are no natural-person ultimate controlling shareholders within the shareholding structure of the Company.

#### 1.1.1 Investor Relations Department and Communication

Investor Relations Department is run by an Investor Relations Department Manager and an Inves-

tor Relations Department Officer that directly report to Assistant General Manager Birgül Denli. The Corporate Governance Committee is informed of the activities conducted by the department; a report is prepared and submitted to the Board of Directors at least every year and the activities of the department are controlled by the committee. The department manager is a full-time employee of the company and has capital market activities corporate governance rating expert license. He/she is also appointed as a member of the Corporate Governance Committee.

Communication with Investor Relations Department can be established via the e-mail address of [yatirimci.iliskileri@gunessigorta.com.tr](mailto:yatirimci.iliskileri@gunessigorta.com.tr); or through direct contact with the following officials.

#### INVESTOR RELATIONS UNIT MEMBERS

Name Surname	Responsibility	License Info	Telephone
Birgül DENLİ	Deputy General Manager		(0212) 355 6960
Fulden PEHLİVAN	Investor Relations Certified Unit Manager Corporate Governance Committee Member	Corporate Governance Rating Specialist License Capital Market Activities Advance Level Licence	(0212) 355 6820

#### 1.1.2 Duties of Investor Relations Department

- The duties of Investor Relations Department are summarized below;
- To establish communication between shareholders and the Board of Directors;
- To help in answering the questions of shareholders and investors providing that they are not considered as trade secrets;
- To ensure that the correspondences with investors and the records related with such information and documents are kept in a healthy, safe and updated manner;
- To ensure that the General Assembly Meeting is held in accordance with the articles of association;
- To present the General Assembly meeting notice, meeting agenda and the minutes of the meeting to shareholders and investors for information purposes;
- To ensure management of E-General Assembly meeting;
- To publish the responses to the questions asked during the General Assembly meeting on the website;
- To ensure distribution of dividends and bonus shares related with shareholders;
- To announce the quarterly activity reports and

- independent audit reports through Public Disclosure Platform (PDP);
- To supervise and monitor publication of material event disclosures on PDP, and fulfillment of the obligations arising from the capital markets legislation including any and all issues related with corporate governance and public disclosure;
- To make periodical updates regarding General Assembly meetings, Financial Statements and Board of Directors in the Central Registry Agency's (CRA) system;
- To update the list of people with access to insider information and the non-circulating share information over MKS (Central Registry System) Application;
- To ensure that the "Investor Relations" section of the corporate website is kept updated;
- To ensure that the annual report is prepared in accordance with Turkish Commercial Code (TCC) and the regulations of the Undersecretariat of Treasury and CMB and timely published for examination by shareholders;
- To lead the activities for compliance with Corporate Governance Principles and to inform the Corporate Governance Committee of such activities;
- To prepare a report in relation to the activities

and submit it to the Board of Directors at least once a year;

- To help in adaptation to the new regulations published through communiqués and regulations;
- To ensure that the Corporate Governance Principles Compliance Report is duly updated and to submit it to the Corporate Governance Committee for approval.

### 1.2 Right to Receive and Review Information

Publicly disclosed quarterly financial statements are sent to the company shareholders Türkiye Vakıflar Bankası T.A.O. and Groupama S.A. In addition, a BRSA (Banking Regulation and Supervision Agency) package comprising Intra-group transactions and financial statements prepared in the format compatible with the banking legislation is sent to Türkiye Vakıflar Bankası T.A.O. on a monthly basis. All other requests for information related with the Company are answered as soon as possible in their order of urgency.

In compliance with the provisions set forth in the Capital Markets Board's Material Events Communiqué (II-15.1), announcements and information were shared through the Public Disclosure Platform, and thus, shareholders were informed.

Two requests received from the shareholders were answered in written format in 2016. There was no request for appointment of a special auditor within the period.

### 1.3 General Assembly

#### 1.3.1 General Assembly Meeting Notice and Information

Upon the resolution taken by the Board of Directors, General Assembly meeting notice and all documents that will be made available for examination by shareholders at least three weeks before the General Assembly meeting are announced on the Company's corporate website, PDP and CRA. The "Internal Directive regarding the Operating Principles and Procedures

of the General Assembly of Güneş Sigorta Anonim Şirketi" was prepared and approved at the General Assembly meeting dated 25 March 2013.

The information announced for the General Assembly meeting include, inter alia, the information regarding the company's shareholding structure and total number of shares, changes in the management and activities that may substantially affect the company's planned activities within the fiscal year and reasons of such changes. In addition, the information regarding the reasons for dismissal and replacement of Board Members, if any, resumes of the persons nominated as candidates for Board membership as notified to the company together with the positions held in the last ten years and the reasons of departure, nature of relationship with related parties and level of importance, and whether he/she has independence are provided. The remuneration policy for the Board members and the executives with administrative responsibility is also provided. The meeting agenda, and if an amendment in the articles of association is put on the agenda, the former and new texts of such amendments to articles of association together with the related resolution of the Board of Directors, and the meeting notice sent by the Board of Directors to shareholders are announced to investors. They are collectively provided as the "General Assembly Announcement" report in the General Assembly section of the website.

The sample "Form of Proxy for Voting" that can be used by shareholders to appoint proxies authorized to represent them in the General Assembly Meeting, to vote, to propose motions and to sign the necessary documents is provided in the General Assembly section of the website.

Annual report is published on the website at least three weeks before the meeting for examination by shareholders. In addition, copies thereof are made available in the general management building.

The Ordinary General Assembly Meeting was held with a 88,06% meeting quorum on 15 April 2016 during the period. The announcements regarding such meeting were published in Turkish Trade Registry Gazette, Public Disclosure Platform and the Company's website.

#### 1.3.2 Agenda of the General Assembly Meeting

Every item is prepared to contain an individual single proposal. If any, the agenda item related with approval of the amendment in the Articles of Association is added. If dismissal, replacement or election of Board Members will be discussed; the reasons of such dismissal and replacement, the resumes of persons nominated as candidates for Board membership as notified to the company, the information regarding the positions that they have held in the last ten years and their reasons of departure, the nature of their relationships with related parties and the level of importance, and whether he/she has independence are provided.

The items regarding the reading of annual report and independent auditor's report and the reading and approval of financial statements, and a decision to be taken in respect of profit distribution are put on the agenda. In addition, the items related with approval of the Board of Directors' resolution on selection of the independent audit company and determination of the payments made to Board members are also specified on the agenda. The items of the agenda also include the information that will be provided in relation to the principles regarding remuneration of the Board of Directors and senior executives.

The policy regarding donations and aids has not been yet prepared and submitted to the General Assembly for approval. The amounts of the donations and aids made during the period and the list of beneficiaries are provided in the General Assembly Meeting.

In the event that the Board Members, the senior-level executives and their spouses and relatives related by blood or affinity up to the second degree execute any important transaction that may create a conflict of interest with the company and its affiliates; such transactions are discussed as a separate item of the agenda in the General Assembly meeting and entered into the related minutes.

Shareholders' written requests for addition of items on the agenda and the recommendations of Board of Directors and partners for agenda are added as items of the agenda. If the proposals for items of the agenda are not accepted, the rejected proposals and the reasons of such rejection are notified by the investor relations department to shareholders. If any, dissenting opinions are entered into the minutes of the meeting.

#### 1.3.3 General Assembly Meeting

General Assembly Meetings are held at the Company's Headquarters building and at a venue that allows all shareholders to participate in such meeting, and simultaneously through electronic environment over the Electronic General Assembly System. The chairman of the meeting makes preparations for conducting the General Assembly and the necessary information like meeting order, items of the agenda, participation is submitted to the chairman. It is ensured that the officials that are in charge of preparation of the financial statements and the independent auditors are present in the General Assembly Meetings in order to answer the questions and to provide necessary information.

E-General Assembly system is installed in advance and it is checked for proper operation before the meeting. Measures are taken for uninterrupted operation of the installation and against any problems that may arise during the meeting. The meeting starts simultaneously in both physical and electronic environment; the items of the agenda are

read and put to vote concurrently. The votes of e-participant shareholders are automatically entered in the E-General Assembly and only the rejection votes cast by the shareholders physically present at the meeting are entered; and after automatic deduction of rejection votes from the total votes, the affirmative votes are entered into the system. If there are any comments made in relation to the items on the agenda during the E-General Assembly, they are read and if necessary, answered in the physical meeting.

There is no requirement to hold General Assembly Meetings open to public including stakeholders and media without the right to speak; and there is no provision related with this issue in the Articles of Association; and the General Assembly Meetings are not held open to public.

#### 1.3.4 Notifications after General Assembly Meeting

The questions posed by shareholders to the Board of Directors or the auditors are answered providing that it is necessary for exercising the shareholding rights and it does not contain any trade secrets. The minutes of General Assembly Meeting is provided immediately after the meeting to those requesting them. They are sent to the shareholders and other related authorities via mail. In addition, they are also kept continuously available for examination by shareholders at the Company's head office.

The minutes of the meeting is sent to PDP after the General Assembly Meeting. In addition, the minutes of the meeting and the List of Attendants are published on the Company's website at [www.gunessigorta.com.tr](http://www.gunessigorta.com.tr) in the Investor Relations Section for providing information to investors. The decisions of the General Assembly taken in the last five years are also posted in the Investor Relations Section of the Company's website. The minutes of the General Assembly meeting are also added to the CRA system concurrently.

### 1.4 Voting Right

The Company cannot execute any transaction that can make it difficult to exercise the voting rights. Through E-General Assembly system, the right of voting is granted to all shareholders that cannot physically participate in the meeting.

Each shareholder has one voting right regardless of the amount of shares held by such shareholder. Shareholders use their voting rights in proportion with the total nominal value of their shares in the General Assembly meeting.

Shareholders of the Company do not have any privileged voting right.

There are no companies with reciprocal shareholding.

### 1.5 Minority Rights

Our company pays utmost attention for the exercise of minority rights. The applicable legislation is complied with during the exercise of all minority rights required to be granted by operation of law; and there is no provision expanding the scope of minority rights in the Company's articles of association.

### 1.6 Dividend Right

Article 24 of the Company's Articles of Association describes how the profit will be distributed. There is no publicly disclosed dividend policy.

According to the articles of association; dividends are distributed within the statutory periods after approval in the General Assembly meeting of the profit distribution proposal made by the Board of Directors considering the Company's current situation, investment requirement and financial structure, which will not impair the delicate balance between shareholders' expectations and the growth need of the Company. There is no privileged rights related with sharing of the Company's profits.



The decision taken in the General Assembly meeting in relation to dividend distribution is publicly disclosed as a material event disclosure on PDP and website.

### 1.7 Transfer of Shares

There are no provisions restricting the transfer of shares in the Company's Articles of Association. The shares representing the capital are recorded within the framework of dematerialization principles.

Pursuant to article 10 of the Insurance Law no. 5684 and article 10 of the Regulation on Establishment and Operating Principles of Insurance and Reinsurance Companies; share transfers are subject to the written consent of the Republic of Turkey Prime Ministry Undersecretariat of Treasury General Directorate of Insurance.

## SECTION 2 – PUBLIC DISCLOSURE AND TRANSPARENCY

### 2.1 Corporate Website

Güneş Sigorta's website is www.gunessigorta.com.tr. The Company is responsible for publishing current and updated information required to be disclosed pursuant to legislation on its website. The website is actively used for information and public disclosure purposes. General information about the Company, products, agencies, online transactions, investor relations, human resources and contact sections and links are also provided on the website.

The information published on the website include trade registry information, shareholding structure, management structure and organization, articles of association, Corporate Governance Principles Compliance Report and vision and mission, and material event disclosures, annual reports, financial statements and footnotes, independent audit reports, and General Assembly information (agenda, list of attendants, form of proxy, minutes of General Assembly meetings) for the last five years.

In addition to current news, press releases, agency addresses, contracted services and support services contact details presented about the Company to its customers; general insurance information and insurance branch details are also published on the website.

There is a menu in the communication forms section through which customer opinions and recommendations can be sent in order to establish communication with customers via the website. The mails related with customer opinions divided into categories under the heading of "Your Opinions and Recommendations" are answered by the relevant Department.

The telephone and postal addresses of the Company's general management, regional management offices, financial regional offices and representation offices are also provided in the "contact information" section. Through the Customer Satisfaction Line numbered "850 222 1957", different fax numbers for policy proposal, claims, collection and health insurance procedures are offered to the service of customers and the related information is provided on the website.

Pursuant to article 1524 of the Turkish Commercial Code, it is required that the contents to be announced on the website must be uploaded on the company's dedicated pages using secure electronic signatures and time stamps; that the contents uploaded must be kept in a secure environment; the contents must be made available and accessible, and archived safely. The information related with our company is accessible through our website in the investor relations section under the heading of information society services and via the companies information portal (e-Company) of the Central Registration Agency (CRA); thus, all shareholders are informed. The e-mail address of [yatirimci.iliskileri@gunessigorta.com.tr](mailto:yatirimci.iliskileri@gunessigorta.com.tr) that can be used for establishing communications with investors through which investors can send their questions and opinions is provided under the heading of investor relations contact.

In addition, the website also published in English in order to allow foreign investors to have access to company information contains, in general, the information on the company's structure, Board of Directors and senior management as well as its Corporate Governance Principles Compliance Report provided in the Investor Relations section and the other information related with the insurance sector. The financial statements and footnotes and annual reports issued for the last five years are also provided on the website in English for examination by foreign investors.

### 2.2 Disclosure Policy

The Company's "Disclosure Policy" has been prepared in accordance with CMB Corporate Governance Principles and disclosed to shareholders, stakeholders and general public through the website.

### 2.3 Material Event Disclosures

Public disclosure of the information, events and developments that may affect the value, and price of capital market instruments and the investors' investment decisions is made according to the explanations provided in the Material Events Disclosure (II-15.1) in order to ensure operation of capital markets in a reliable, transparent, efficient, stable, fair and competitive environment by informing investors timely, completely and accurately.

Information related with the Company is disclosed to the public within the knowledge and under the responsibility of Birgül Denli, Assistant General Manager for Strategy and System Management and Murat Koygun, Assistant General Manager for Financial Affairs Management.

The Company made 6 material event disclosures in 2016 pursuant to CMB regulations. In addition, the capital increase process was completed in 2016; and the PDP announcements

related with increase of capital are published on the website in the "Capital Increase" section. There are no material event disclosures that have not been timely published in relation to Güneş Sigorta activities.

Company's shares are traded in local stock exchanges only.

### 2.4 Annual Report

The year-end Corporate Governance Principles Compliance Report is added to the annual report in order to provide information related with the practices regarding Corporate Governance Principles within the annual reports of the Company. Material changes happening during the year are included in the interim activity report. Annual report is prepared in the required format, completely and appropriately in accordance with the Regulation on Financial Structures of Insurance and Reinsurance

Name	Position
Serhat Süreyya ÇETİN	General Manager
Hasan ALTANER	Asistant General Manager
Birgül DENLİ	Assistant General Manager
Murat KOYGUN	Assistant General Manager
Tahsin ORAL	Assistant General Manager
Tayfun ALTINTAŞ	Group Director
Elvan ATALAY	Group Director
Paşa Hüseyin ALTIN	Group Director
Uğur SEFİLOĞLU	Group Director
Olca ŞAHİN	Group Director
Muhassin Bahadır TAMKAN	Technical Accounting Manager
Murat SÜZER	General Accounting and Financial Reporting Manager
Çağlar GÜÇLÜ	General Accounting and Financial Reporting Assistant Manager
Fulden PEHLİVAN	Budget Planning and Investor Realties Manager/ Investor Relations Certified Unit Manager

Pursuant to section 10, article 35 of the Insurance Law no. 5684, members and officers of enterprises subject to this Law, people subject to this Law and the people working for them and those working in the insurance sector by way of outsourcing of services cannot disclose the secrets that they learn due to their capacities and during their duties in relation to the institutions subject to this Law or the persons related with insurance agreements, to any persons other than the competent authorities that are explicitly authorized by operation of law; otherwise, judicial fines are imposed in case of such disclosures.

and Pension Companies, the Regulation on Determination of Minimum Content of Annual Reports, of Companies, the Circular no. 2011/8 issued by Undersecretariat of Treasury for Insurance Companies and the CMB Corporate Governance Communiqué.

### 2.5 Public Disclosure of People with Access to Insider Information and Protection of Insider Information

The Capital Markets Board has started to monitor the people with possible access to insider information through the Central Registry System provided by the Central Registry Agency (CRA). Pursuant to article 7 of the Material Events Communiqué (II-15.1), it is required that the list of people with access to insider information prepared by companies and any changes on such list must be notified to CRA. Some of the executives specified on the list of people with access to insider information and working for the employer are listed below.

## SECTION 3 - STAKEHOLDERS

### 3.1 Company's Policy regarding Stakeholders

Stakeholders related with the Company are informed of any issues that are of interest for them. The information disclosed to public through the Company's internal meetings and the bulletins issued by the Company is furnished to the stakeholders. Stakeholders are also informed via intranet that was put into service at the end of 2011 and various telecommunication tools. The disclosures to the public are made through press confer-



ences, statements given via media, PDP announcements (material event disclosures), information provided on website, and through CRA information society service.

Güneş-im, the corporate communication platform of Güneş Sigorta personnel was commissioned in September 2011 in order to increase communication and cooperation by way of sharing of corporate and social information and to inform all employees from the right source as soon as possible. Performance management, target management and leave of absence management are made available for the personnel via Personel-im portal. Jira application is used for general claim management, meeting management, the requests to be sent to the Management Information System Department, prodit-pusula application requests and administrative services request management and authorization requests. There are various applications put at the disposal of personnel, including Bim help application used for requests related with hardware and software data processing problems; Pusula application used for corporate resource management; Armada application used for database reporting; KYS application used for process management system application; and e-payroll application used for viewing payrolls. Various meetings, organizations and e-bulletins are provided via Personel-im and Güneş-im intranets and management changes and some important announcements are also notified via company e-mail in order to inform employees.

Utmost attention is paid to the privacy of data related with all stakeholders like employees, customers, brokers, suppliers. Ethical principles to be followed in the relationships with customers, suppliers, employees, brokers, and public agencies and institutions as well as in the relationships with each other are defined as "Insurance Ethics" published by the Association of the Insurance and Reinsurance Companies of Turkey. The principles encourage the general principles like integrity, impartiality, trustworthiness as well as the principles like exchange of information, informing customers, customer secrets and security, non-discrimination and service quality, recruitment, career development, and representation and the behaviours and attitudes required by the dignity of the profession like provision of suitable working environment. Within the framework of these principles, the current public confidence in the sector is increased. The principles of ethics adopted by our Company and notified and announced to all Güneş Sigorta employees are signed by all newly employed personnel and consultants. In addition, the commitment letter

related with Insurance Information and Monitoring Center (SBM) information exchange protocol is also adopted and signed by the personnel.

In addition, the Competition Law Compliance Program published by the Turkish Competition Authority has also been adopted by our company; and Güneş Sigorta competition law compliance policy has been issued. With the said document, it is aimed to inform all our employees about the Competition Law and the competition among the companies in the insurance sector, to prevent violations of competitions before their occurrence or appearance, and to inform company managers and employees about competition rules and to prevent them from displaying the behaviours or practices contrary to competition legislation. This document is signed by all newly employed personnel and consultants when they start to work.

As a part of its Information Security Policy, Güneş Sigorta A.Ş. explains the common rules and conditions regarding Information Systems/Internet access and security, which are applicable for all users using Güneş Sigorta network Information System resources. This document is signed by all newly employed personnel and consultants when they start to work.

The Company develops various policies, procedures, processes and practices within the framework of its quality management system in order to protect its stakeholders' rights and to ensure their sustainability. Some examples that can be given in relation thereof include human resources policy, customer relations policy, information disclosure policy, supplier evaluation and contract negotiation and preparation processes and customer satisfaction line.

### 3.2 Supporting Stakeholders' Participation in the Company Management

There are different models in place developed for participation of stakeholders in the Company's management.

General Agencies Meeting: In the Agencies Meeting held once a year, the Company's general situation and targets are evaluated jointly with the Company's management and prospective opinions are shared; thus, the Company-Business partner relationships are strengthened and improved.

Güneş-net portal commissioned in 2010 is used for informing agencies on issues related with the Company, and it also provides direct and fast communication with the Company and facilitates the communication with the agencies.

Customer satisfaction survey is used to receive feedbacks from customers via the company website and to make evaluations.

Regional Coordination Meetings: In the meetings held jointly with the employees of Regional Offices and Headquarters and senior management, the regional requests are presented and the communication oriented towards improvement of the cooperation between the general management and regions is further enhanced.

### 3.3 Company's Human Resources Policy

Güneş Sigorta Human Resources Policy: is to manage human resources effectively and efficiently in order to achieve the strategic goal of "Increasing employee satisfaction" towards the strategic approach of "Sustainable competitive structure".

"Team spirit" is the common ground of Güneş Sigorta employees. As one of the leading and well-established companies in the insurance sector, our objective is to retain, under our structure, success-oriented employees that will embrace our common values and that enjoy teamwork and are open to personal development.

All employees working at Güneş Sigorta have a full command of our company's mission, vision, and quality policy. All employees are aware of the contribution of their jobs to the organizational efficiency of Güneş Sigorta. Everyone works with the sense of team spirit and has remarkable skills for creating innovations.

Güneş Sigorta attaches great importance to provision and development of, particularly, the necessary training as well as the equipment and disciplined procedures for its employees as required for their productivity and Güneş Sigorta considers its employees as its most valuable capital asset.

Güneş Sigorta raises its executives under its own roof. It provides insurance formation for exploratory, farsighted, creative young people with problem solving skills.

Güneş Sigorta Human Resources and Training Department is responsible for all human resources procedures related with its employees including, particularly, recruitment process, training and development activities, performance assessment, career planning, and wage management. In this context; Güneş Sigorta conducts the recruitment process through examinations and interviews. The applicant candidate's eligibility for our company and the position and his/

her personal characteristics are evaluated.

With the understanding that employees are its most valuable asset, Güneş Sigorta attaches utmost importance to training and development activities. To this effect, it offers to its employees the opportunity to develop themselves by receiving the trainings that they need in the administrative, technical and personal development fields.

The goal of Performance Assessment at Güneş Sigorta is to evaluate the performance of individuals within the context of the Company's strategic goals and the institutional and individual goals and competencies, and to ensure that employees work in harmony and the company achieves the desired results.

Güneş Sigorta implements Career Development System by enabling its employees to make the best of their competencies and knowledge and experiences that they have gained. To this effect, trainings oriented towards the areas for improvement are planned under the scope of the Career Development programs implemented for the employees displaying high performance or working in critical positions. With the promotion exam held once a year at Güneş Sigorta, employees have the opportunity to take a step forward in their careers. The wages of all employees are paid at the end of every month and there are four bonus payments in a year and a dividend payment decided and specified by the Board of Directors. Employees' wages are increased upon their promotion as they advance in their career and in line with the criteria determined upon mutual agreement reached with the union on a periodical basis. Güneş Sigorta employees are members of the Banking and Insurance Workers Union and representatives were internally assigned in the company to represent the union member employees. Compensation rights of Güneş Sigorta employees are protected under the related articles of labour law and the provisions of the Collective Labour Agreement (TİS); and our publicly-disclosed compensation policy has not been prepared yet.

### 3.4 Relations with Customers and Suppliers

Güneş Sigorta A.Ş. has been uninterruptedly implementing ISO 9001 Quality Management Systems since 1997 so far in order to maximize unconditional customer satisfaction among its customers and to gradually improve this service.

The new Quality Management System of Güneş Sigorta A.Ş. established on the basis of ISO 9001:2008 Standard was certified according to ISO 9001:2008 Quality management System Standard through the

certification audit conducted by ASR (American Systems Registrar) on 10-11-12 December 2003. The certificate was extended for three years through re-certification audit conducted by ASR on 2 March 2010. ISO 10002:2004 Customer Complaints Management System certificate was received from ASR for the first time on 2 March 2010.

In the Customer Relations Management unit, all incoming suggestions, information, appreciation and complaint requests received verbally or in writing (via e-mail, website survey forms, telephone, fax, customer satisfaction line) are answered and the related feedback is provided not later than three business days under the scope of the company's information Disclosure Policy; thus, services are provided in order to maximize the customer satisfaction. Customer Relations Policy is published on the Company website.

The Company prioritizes its customer needs while developing its products; and it aims to meet insurance needs in an effective and efficient manner. The company makes the necessary arrangements in order to inform its customers about the products; and it provides product information through its website and call center. Special importance is given to provision of information at the time of execution of a contract in relation to insurance products. To this effect, the insured/customers are informed both verbally and in writing. During provision of such information, the claims under insurance coverage and exceptions, deductibles and non-warranty issues, premium debt, consequences of non-payment of premiums, the documents that will be requested at the time of a claim and the course of actions to be followed are explained. The communication channels including call center and Internet are always kept open and available in order to allow insured people to receive information and to have direct access at the time of a claim. The policyholders are correctly guided for quick completion of claims processes. It is aimed that claims are paid accurately and quickly.

The company secures its relationship with suppliers from which it purchases goods or services through the procedures that it has established as required by the standards. The company makes all efforts through its own means in order to protect suppliers' rights and to improve the relationships and the quality from the stage of proposal collection until the stages of invoice payment and inclusion in the approved suppliers list. In case of violation of suppliers' rights in the contracts signed with suppliers, the company makes things easier for activation of the necessary mechanisms required to be used.

### 3.5 Ethical Rules and Social Responsibility

The Insurance Ethics published by the Association of Insurance and Reinsurance Companies of Turkey is also adopted by our Company. It is announced to all our employees, thus making them aware and informed of ethical principles. "Güneş Sigorta Ethical Principles" document is signed by all newly employed personnel and consultants when they start to work.

Furthermore, having signed the United Nations Global Compact in 2011, Güneş Sigorta has once again demonstrated its pioneering role in Turkish insurance sector by becoming the first non-life insurance company signing this compact. Güneş Sigorta has promised to embrace and faithfully follow the 10 basic principles focusing on human rights, working standards, environment and anti-corruption; to adapt such principles to the business processes as well as the corporate values and culture in the best manner possible and to continue to fulfil its responsibilities towards its employees, stakeholders and society from now on as usual. Global Compact Progress Notice Report, which is renewed every year, is sent to Global Compact and published in the "corporate social responsibility" section on our corporate website.

Güneş Sigorta has been shaping and continuing its social responsibility projects under the headings of environment and social solidarity by focusing on correct use of natural resources, protection of environment and ensuring social development.

With the "Solar Power Plant" established in its General Management building, it has been generating its own electricity and contributing in the nature by using green energy since 2009.

Producing special micro-products for women with low income using loans, Güneş Sigorta has become the guarantee for entrepreneur women with low income through its MicroHouse (MikroKonut) and MicroInsurance (MikroSigorta) products. The company's social responsibility projects are provided in details in the "corporate social responsibility" section on the corporate website.

Within the framework of its social responsibility projects, Güneş Sigorta conducts a scholarship program for university students. Scholarships were provided for 115 students during September 2015-February 2016 fall academic semester and for 99 students during March 2016-May 2016 spring academic semester under the scope of the scholarship program, which can be also benefited by the children of Company employees. 120 students are currently receiving scholarships in September 2016-February 2017 fall academic semester.

Name	Position	Date of Appointment
Halil AYDOĞAN	Chairman	09.04.2013
Metin Recep ZAFER	Vice Chairman	09.03.2007 (BoD Member) / 22.04.2016 (Vice Chairman)
Muhammet Lütfü ÇELEBİ	Member	27.03.2015
Abdi Serdar ÜSTÜNSALIH	Member	15.04.2016
Aydın Cem ASLANBAY	Member	15.04.2016
Serdar TUNÇBİLEK	Independent Member	31.10.2014
Fatih KÜÇÜKCAN	Independent Member	15.04.2016
Serhat Süreyya ÇETİN	Member and General Manager	09.02.2011

## SECTION 4 – BOARD OF DIRECTORS

### 4.1 Structure of the Board of Directors

The administration and activities of the Company are managed by a Board of Directors comprising 8 members including General Manager that are elected by the General Assembly in accordance with the Turkish Commercial Code, Capital Markets legislation and the provisions of Insurance Legislation.

As of 31 December 2016, the names, positions and the start date of office of the Chairman and members of the Board of Directors are presented below:

The General Manager of the Company is a natural member of the Board of Directors and has a voting right. Two independent Board Members were started to be elected to the Board of Directors since the General Assembly meeting held in 2012. The principles of the corporate governance communiqué are strictly complied with at the time of election of independent members. The terms of membership to the Board of Directors have been restricted in order to protect the independence of independent members. In case of a situation removing such independence, the independent member notifies the related reason too the Board of Directors for further announcement in PDP; the Board is informed in writing simultaneously and the related member resigns. The Nomination Committee notifies the Board of Directors of the new candidates for such vacant membership determined as a result of the evaluation, who will serve until General Assembly elections.

Although there is no obligation to have a female member among the members of the Board of Directors in the articles of association, there is no arrangement that may prevent such an election to the contrary, either.

Members of the Board of Directors are elected for

one year; however, the members whose terms of office expire may be re-elected. The remuneration payable to members of the Board of Directors is determined by the General Assembly. The General Assembly may, at any time, change and replace the members of the Board of Directors when it considers necessary. In case of a vacancy of membership in the Board of Directors, the Board of Directors temporarily select a person among the candidates nominated by the same shareholders bearing the legal qualifications. The member elected as such shall serve until the next General Assembly Meeting to be convened and if such election is approved by the Board, the related member serves until the expiry of the term of the member replaced by him/her. The general manager's term of office is not dependent on the terms of office of the Board members.

The members of the Board of Directors of the Company strictly comply with the prohibitions of executing transactions and competition with the Company during the period. There is no credit/debt relationship between the Board members and the company.

### 4.2 Powers/Authorities and Responsibilities of the Board Members

The powers/authorities and responsibilities of the Company's Board members and executives are clearly specified in the Company's Articles of Association. Pursuant to Article 13 of the Articles of Association, the Board of Directors is authorized to take decisions on any issues and transactions except for the matters exclusively reserved for the General Assembly.

The Board members of Güneş Sigorta must meet the qualifications specified in article 6 of the "Regulation on Establishment and Operating Principles of Insurance and Reinsurance Companies". Documents of members assigned to the Board of the Directors are prepared and sent to the Undersecretariat of Treasury.



The Board members' and auditors' educational background, professional experience and resumes are provided in the Company's annual report; in addition, the chairman's and members' resumes are also published under the Board of Directors heading on the website.

With the help of the committees, the Board controls the processes for fulfillment of responsibilities towards stakeholders, including, particularly, shareholders. It undertakes utmost responsibility to establish, properly manage and maintain an internal control system comprising the risk management, information systems and processes in order to minimize the impacts of possible risks. It conducts joint activities with the Corporate Governance Committee and

Investor Relations Department for sustainability of the efficiency of relationships with stakeholders. It assumes a pioneering role in establishment of a common language for communication and settlement of possible disputes.

The responsibilities are secured under professional liability insurance in order to cover the damages that may occur in the company during the term of office of the Board members.

#### 4.3 Form of Board of Directors Meetings

Agendas of the Board of Directors' meetings are determined according to the provisions and authorities specified in the articles of association. The Board of

and support service institutions; to regularly monitor the activities of such institutions selected by the Board of Directors, with which contracts are signed; and to ensure that the internal audit activities of the subsidiaries subject to consolidation are conducted and coordinated on a consolidated basis pursuant to the regulations enforced with reference to the Insurance Law no. 5684.

The Audit Committee submits its evaluations on the authenticity and accuracy of the publicly disclosed annual and interim period financial statements to the Board of Directors. Information on the activities of the committee, the meetings held by it and the related results is provided in the annual report. The Audit Committee is comprised of at least two members and the committee members are selected among the Company's independent Board members.

Except for obligatory circumstances, the Audit Committee convenes, in principle, at least four times a year on a quarterly basis and when deemed necessary upon the invitation of the Committee Chairman at the headquarters of the Company.

#### 4.4.2 Corporate Governance Committee

Established on 20 April 2012, the Corporate Governance Committee checks and determines whether the Corporate Governance Principles are complied with in the Company; and if not, the related reasons and the conflicts of interest arising from the failure to strictly comply with such principles; and submits its recommendations towards improvement of corporate governance practices to the Board of Directors. Activities of the investor relations department are reported to the committee and the committee's opinion on the activities conducted is received.

In addition, the Corporate Governance Committee also functions as a Nomination Committee and Remuneration Committee under the corporate governance communiqué.

On 30 June 2014, the Investor Relations Department Manager was appointed for the first time and he was also assigned as a member of the committee. Except for obligatory circumstances, the Committee convenes, in principle, at least every three months and whenever deemed necessary upon the invitation of the Committee Chairman at the head office of the Company.

#### 4.4.3 Early Risk Detection Committee

Early Risk Detection Committee was established on 20 October 2012 in accordance with the provisions set forth in the 1st paragraph of article 378

of the Turkish Commercial Code no. 6102 enforced on 1 July 2012. Pursuant to the Board of Directors' resolution dated 24 May 2013, it was decided that the committee should also function as Early Risk Detection Committee, which was required by the CMB Communiqué. The committee is comprised of a chairman and two members; the independent Board member acts as the chairman, and one of the members acts as the executive assistant general manager.

The Committee is responsible for early detection of the risks that may endanger the presence, development and sustainability of the Company, implementation of the necessary measures and actions in relation to the risks identified, and conducting the activities for risk management purposes; and it evaluates the current situation in a report to be submitted to the Board of Directors every two months and reviews risk management systems at least once a year.

Internal Control and Risk Management Department was established as of 1 February 2009 under the scope of the "Regulation on the Internal Systems of Insurance, Reinsurance and Pension Companies" published in the Official Gazette no. 26913 dated 21 June 2008. Main risks faced by the Company are monitored under five main headings such as insurance risk, credit risk, market risk, liquidity risk and operational risks. Risk management policy is presented both in the related section of annual reports and on the website. The activities of the department are reported to the committee and the committee's opinion on such activities conducted is received.

#### 4.4.4 Financial Rights and Benefits granted to the Board Members and Executives with Administrative Responsibility

There is no fee payable to the Company's Board members except for the attendance fee determined upon the decision of the shareholders in the General Assembly. The fees paid to Independent Board members are not in a level likely to affect their independence; and they do not include any dividend, share options or performance-based payment types, either.

During the General Assembly Meeting held every year, the policy on remuneration payable to Board members and the amount paid are presented to the investors for information through the minutes of the General Assembly meeting published. The information on the remuneration and financial rights granted to Board members and senior-level executives is published in the annual report.

Committee Members	Committee Role
<b>Corporate Governance Committee</b>	
Serdar TUNÇBİLEK	Chairman
Abdi Serdar ÜSTÜNSALİH	Committee Member
Fulden PEHLİVAN	Committee Member / Investor Relations Unit Certified Member
<b>Committee Member</b>	
Serdar TUNÇBİLEK	Chairman
Fatih KÜÇÜKCAN	Committee Member
<b>Riskin Erken Saptanması Komitesi</b>	
Serdar TUNÇBİLEK	Chairman
Muhammet Lütfü ÇELEBİ	Committee Member
Hasan ALTANER	Committee Member

Directors convenes upon the call by its chairman or the request of at least two members as required by the Company's business affairs, and in any case, not less than once a month. Meetings are held at the Company's head office or any other location agreed. Each member has one voting right in the Board of Directors. For validity of the resolutions taken by the Board of Directors, a quorum of one more than half of the number of its members should be present in the meetings. Resolutions are taken by the majority of the members present in the meeting. This rule also applies for the Board of Directors' meetings held electronically. In case of equality of votes, the issue in question is discussed again at the next meeting. In case of tie of votes in this meeting again, the proposal is deemed dismissed.

#### 4.4 Committees formed under the structure of the Board of Directors

Corporate Governance Committee, Audit Commit-

tee and Early Risk Detection Committee were established under the structure of the Board of Directors in 2012. With the General Assembly meeting held on 30 April 2014, the members of the Board of Directors were elected for a 1-year term of office; and the committee members were determined by the Board of Directors' resolution dated 9 May 2014. The committee members as at 31 December 2016 are as follows:

#### 4.4.1 Audit Committee

Established on 20 April 2012, the Audit Committee is responsible to supervise, on behalf of the Board of Directors, the efficiency and adequacy of the Company's internal systems, the functioning of such systems and accounting and reporting systems in accordance with the Insurance Law no. 5684 and the related regulations and the integrity of all information generated; to make the preliminary assessments during the process of appointment by the Board of Directors of independent audit companies and rating agencies and valuation, appraisal

# Financial Data and Risk Management



## INFORMATION ON FINANCIAL STANDING, PROFITABILITY AND SOLVENCY

Güneş Sigorta's size of assets increased by 14 percent compared to the previous year and reached TL 1 billion and 756 million and 36 thousand; and its premium production increased by 7 percent and reached the amount of TL 1 billion and 372 million and 978 thousand in 2016. Our Company continues its activities towards rapid adaptation with new conditions, working in safety and in cooperation with stakeholders, and widespread expansion of insurance awareness all around the country. Our Company has also provided the securities that

will cover its existing and any future obligations under the custody of Treasury in accordance with the regulations regulating insurance, reinsurance and pension companies. Güneş Sigorta has timely fulfilled all of its legal and commercial obligations without experiencing any financial difficulty thanks its strong structure of assets comprising liquid assets and proper maturity distribution of assets directed to investments. The summary of financial data for the last five years including the reporting period is provided in the table below.

Thousand TRY	2016	2015	2014	2013	2012
Total assets	1,756,036	1,536,797	1,360,678	1,212,682	992,626
Equity	433,195	306,102	386,504	334,569	307,632
Paid Capital	270,000	150,000	150,000	150,000	150,000
Written Gross Premium	1,372,978	1,288,379	1,212,631	1,076,727	922,457
Gross Paid Claims	(757,106)	(696,391)	(595,834)	(513,493)	(463,897)
Gross Outstanding	(1,072,274)	(921,746)	(660,430)	(553,032)	(404,133)
Premium Conservation Contribution	750,809	724,034	644,470	596,863	514,860
Technical Profit	17,922	(142,886)	31,756	(30,786)	(2,886)
Conservation Rate (%)	55	56	53	55	56
Net Loss Ratio (%)	85	98	79	84	77
General Expenses	(89,408)	(88,490)	(87,510)	(84,758)	(85,008)
Investment Incomes	82,850	100,242	64,078	55,941	35,180
Investment Costs	(89,647)	(91,510)	(60,455)	(56,727)	(41,983)
Income on Investments	(6,797)	8,731	3,623	(786)	(6,804)
Net Profit or Loss for Financial Year	(50,762)	(162,569)	13,440	(53,692)	(19,986)
Return on Equity (%)	-12	-53	3	-16	-6
Return on Assets (%)	-3	-11	1	-4	-2
Technical Profit / Written Premium (%)	1	-11	3	-3	-0.3
Net Profit / Written Premiums (%)	-4	-13	1	-5	-2

## INFORMATION ON FINANCIAL SITUATION; EFFORTS MADE FOR COVERING DEBTS, CAPITAL ADEQUACY AND FINANCIAL STRENGTHENING

The Company decided to increase its paid-in capital by the amount of TL 120,000,000 pursuant to the Board of Directors' resolution dated 20 July 2016; the application made in relation to such capital increase was accepted by the Capital Markets Board on 14 December 2016 and published and announced in the Official Gazette on 30 December 2016. Capital adequacy calculations were made considering the financial statements

dated December 2016 prepared after increase of capital. In this period, our company's "Required Shareholders' Equity" figure was determined as TL 357,390,026 within the framework of the related regulation. Our Company's shareholders' equity figure taken into consideration is TL 445,281,313 by the same date and it was calculated to be above the "Required Shareholders' Equity" figure by an amount of TL 87,891,288.

## DIVIDEND POLICY

Article 24 of the Company's Articles of Association describes how the profit will be distributed. Distribution of profit is determined by the Board of Directors considering the Company's situation, investment need and financial structure; and the profit distribution proposal which will not impair the delicate bal-

ance between shareholders' expectations and the growth need of the company is implemented within the statutory periods upon its acceptance by the General Assembly. There is no privileged rights related with sharing of the Company's profits.

## ASSESSMENT BY THE CHAIRMANSHIP OF INSPECTION BOARD REGARDING THE FISCAL YEAR OF 2016

Internal audit of Güneş Sigorta is conducted by the Chairmanship of Inspection Committee reporting to the Board of Directors pursuant to the provisions of the "Regulation on the Internal Systems of Insurance, Reinsurance and Pension Companies". As of the end of 2016, there were 8 board members comprising 1 Chairman of the Inspection Board, 3 inspectors and 4 Assistant Inspectors within the staff of the Chairmanship of Inspection Board.

The Chairman of Inspection Board conducts inspections about whether the activities of the Company's Headquarters units, Regional Offices and representative offices and agencies are conducted in compliance with the Insurance Law and the other related legislation and the in-house strategies, policies, principles and objectives; the accuracy of financial data; the adequacy of practices regarding protection of assets; and the efficiency of internal control and risk management systems as well as the inspections related with the persons and entities from whom support services are received within the framework of the relevant legislation. The Chairmanship of Inspection Board also conducts inspections and investigations related with the unlawful transactions executed by the personnel against the legislation and the acts of fraud, forgery or deception committed by third

persons against the Company.

Inspections are carried out within the framework of the annual audit plan prepared as a risk-based plan considering the resources of the Chairmanship of Inspection Board in line with the Company's targets and strategies. The developments are closely monitored in order to ensure that the inspections conducted and the reports prepared as a result of such inspections are in compliance with "International Internal Audit Standards", risk-based, and adding value to the Company; and required changes and adjustments are made accordingly.

As a result of the audits, inspections and investigations conducted by the Chairmanship of Inspection Board; recommendations are provided to correct the findings identified, to take the measures against recurrence of similar events, to improve the processes and to develop the internal control system; and the actions taken in relation thereof are followed up. The Chairmanship of Inspection Board contributes in the professional development of Inspectors through the in-house and external training opportunities that it offers and encourage and support them in receiving the required certifications. Thus, it also tries to raise trained and qualified human resources for the Company.

## RISK MANAGEMENT POLICIES

The policies established for the risks faced by the Company are regularly reviewed in line with the changes occurring in market conditions.

The risks evaluated in the risk management process are listed below:

### Insurance Risk

This risk refers to the risks arising from signed insurance contracts; and such risks may be exemplified as the failure of healthy selection of insured risks, non-determination of insurance premiums at a level that can cover the damages likely to occur in future; and concentrations arising from non-distribution of risks.

While preparing the price tariffs and making individual

pricing; market conditions, reinsurance contracts, turnover, profitability and sustainable growth objectives are taken into consideration as a whole.

At Güneş Sigorta, the risks and the conditions under which such risks will be covered at the level of agencies, regional offices and headquarters are determined and revised every year by the technical service departments within the framework of risk underwriting principles using the reinsurance treaties and past claim-related experiences. The code of practice booklet showing how and under which conditions and to whom insurance products can be sold or not sold, containing also the risk acceptance principles, is distributed to sales channels every year for information purposes.

Considering the Company's customer portfolio, past claims statistics, the volume of business planned to be realized next year, the equity structure and current market conditions; branch-based retentions and conditions of treaties to be purchased are determined by the Reinsurance and Special Risks Management and Senior Management. The risks not covered under reinsurance contracts, exceeding treaty conditions and capacities or likely to impair the company's treaty balance are covered using domestic and international facultative reinsurance support.

### Credit Risk

Credit risk is defined as the probability of failure of the parties having a material relationship with the company in fulfilling their obligations towards the company. Reinsurance transactions and the premium receivables arising from agencies are the major areas creating the credit risk for the company. The Company monitors its receivables arising from insurance activities within the framework of its collection policies and limits them through its coverage policies established. In selection of reinsurers, the "List of Reinsurance Companies meeting financial and Technical Criteria" as drawn up by the Republic of Turkey Prime Ministry Undersecretariat of Treasury and the reinsurers' credit ratings are taken into consideration; and the impacts of the changes in market conditions on such credit ratings are monitored.

### Market Risk

Potential losses that may occur in the values of instruments held in the company's portfolio as a result of the changes in interest and exchange rates are

considered under the scope of market risk. Such risks are monitored through the reports arranged in relation to foreign currency positions and securities.

### Liquidity Risk

Liquidity risk refers to the company's risk of failure in fulfilling its obligations when they become due and payable. The said risk arises particularly when assets cannot be sold and converted into cash when cash funds are needed. If the maturity of assets is longer than the maturity terms of obligations, liquidity risk increases.

The Company's cash flow is monitored on a daily, weekly and monthly basis; and assets and liabilities are managed by following maturity mismatches and foreign currency positions over the balance sheet.

### Operational Risks

It refers to direct and indirect risk of loss arising from inadequate and unsuccessful internal processes, personnel and systems or external events.

The practices to be followed in the activities and processes conducted throughout the entire Company have been documented through the procedures prepared in relation thereof and the job descriptions of employees involved in the processes are formally specified. The rights and powers assigned to the business units and users in relation to the processes and the approval mechanisms to be implemented are determined by the Board of Directors, General Manager and Assistants to General Manager and defined under the scope of written regulations and procedures.

## PREVENTION OF LAUNDERING PROCEEDS OF CRIME AND TERRORISM FINANCING

Legislation and Compliance Management was established in order to conduct its activities under the scope of the "Regulation on Measures regarding Prevention of Laundering of Proceeds of Crime and Financing of Terrorism"; and the compliance officer appointed in 2008 was included under the structure of this management. The Policy on Monitoring and Reporting of Laundering of Proceeds of Crime, Terrorism Financing and Suspicious Transactions was established and then sent to the Presidency of Financial Crimes Investigation Board after its approval by the Board of Directors. Our corporate policy was also served to our agencies and personnel. In addition, e-training and face-to-face trainings oriented towards all company personnel and agency employees were started in 2009; and the trainings are provided for newly-employed personnel and agency employees every year. Face-to-face trainings were provided for the Regional Managers and Regional Assistant Man-

agers for Sales. Booklets and posters were prepared and distributed to our personnel and agencies in order to raise the awareness of our employees and agencies.

On 13 October 2016, our compliance officer representing our company attended the meeting on Efficiency in Anti-Money Laundering and Counter Terrorism Financing, which was conducted by the Republic of Turkey Ministry of Finance Presidency of Financial Crimes Investigation Board in cooperation with the National Crime Agency of the United Kingdom (England); and our senior management was informed of the European Union practices oriented towards obliged parties and the issues of evaluation that Turkey would be subject to under the scope of FATF.

Our compliance officer participated, on behalf of our company, in the workshop held in Istanbul on

23 November 2016 with the participation of MASAK (Financial Crimes Investigation Board) officials and the compliance officers of insurance companies; and as a result of the workshop, the company personnel and sales channels and sales channel personnel were asked to report the transactions considered by MASAK authority as suspicious transactions, to complete the related training activities and to pay attention to identity verification procedures.

As a result of the Council of Ministers' Decision no. 2013/5428 dated 30 September 2013 on freeze of assets under the possession of persons, entities or organizations listed by the United Nations Security Council's decisions no. 1267 (1999), 1988 (2011) and 1989 (2011); all policyholder/insured data of the Company were compared with the persons and entities listed by MASAK; and the results thereof were reported to MASAK.

As specified under the heading "Requirement of Assignment, Recording and Reporting of Tax Identification Numbers" within the Law no. 4358; it is required to not issue any policy for the beneficiaries without an identification number. The Revenue Administration has provided insurance companies with the opportunity to collectively receive tax identification numbers for foreign customers that cannot present their tax identification numbers

## INFORMATION TO SHAREHOLDERS

Relations with shareholders and investors are the responsibility of the Corporate Governance Committee and Budget Planning and Investor Relations Department connected to the Strategy and System Management. Shareholders and investors may be informed either verbally or in writing. Written information is recorded and the Corporate Governance Committee is informed of the issues and questions asked and the answers given.

Shareholders and stakeholders may receive information directly from the Investor Relations Department; and they are also informed of the issues like periodical developments, financial reports, financial statements, material event disclosures via the Company's website and through CRA. Pursuant to article 1524 of the Turkish Commercial Code, it is required that the contents to be announced on the website must be uploaded on the company's dedicated pages using secure electronic signatures and time stamps; that the contents uploaded must be kept in a secure environment; the contents must be made available and accessible, and archived safely. The information related with

during the stage of policy drafting. Related works were completed within the framework of the Law; and tax identification numbers are requested from the affiliated tax offices for foreign people and entities.

Identity verification studies are conducted every year for new productions under the scope of 'Know-your-Customer' principle. In this context, MASAK Authorization Project was completed and commissioned as of 27 June 2016.

Authorization rules are run before drafting a policy for a proposal requiring identity verification pursuant to the legislation as of 27 June 2016; and issuance of a policy for a proposal lacking the necessary documents is not systematically permitted.

Notifications related to training and inspection activities are reported to MASAK every year. In 2016, suspicious transaction reports were sent to MASAK in relation to the transactions found suspicious among the files sent to SİSBİS (Insurance Abuses Information Sharing System). Risk policy has been determined by the Internal Control and Risk Management Department and Legislation and Compliance Department; and internal control, reporting and communication systems have been established.

our company is accessible through our website in the Investor Relations Section under the heading of "Information Society Services" and via the companies information portal (e-Company) of the Central Registration Agency (CRA); thus, all stakeholders are informed.

Since 2013, it has been made possible to electronically participate in the General Assembly Meetings of our Company. Our shareholders or their proxies willing to participate in such meetings electronically can, pursuant to article 1527 of the Turkish Commercial Code no. 6102, participate in meetings and cast their votes electronically if they have Electronic Signature Certificate in addition to their right to physically attend the General Assembly meeting. Our shareholders willing to participate in meetings electronically are required to complete the necessary procedures in accordance with the provisions of the "Regulation on Joint Stock Company General Assembly Meetings to be held Electronically" published in the Official Gazette no. 28395 dated 28 August 2012.

Vakıfbank, its shareholder with the highest stake, was established in 1954; it reaches out its corporate and retail customers through internet and telephone banking. Providing services to its customers with 3,862 ATMs and 187,861 units of POS devices in total as well as 922 branches constituting its alternative delivery channels as of 30 June 2016, Vakıfbank undertakes a leading role in the financing of domestic and foreign trade.

Vakıfbank has an offshore banking branch also in Bahrain in addition to its branches in USA - New York and Northern Iraq – Arbil. It also supports its overseas activities through Vakıfbank International AG in Austria, and World Vakıf UBB. Ltd. and Kıbrıs Vakıflar Bank. Lt. in TRNC (Turkish Republic of Northern Cyprus).

Considering non-consolidated financial statements published by 30 June 2016, Vakıfbank is the 7th largest bank of the sector in terms of asset size. Vakıfbank group has a wide range of activities focusing on the businesses extending from investment banking services to portfolio management; from retail banking to life and elementary insurance; from commercial and corporate banking to factoring and financial leasing services and real estate investment.

### COMMERCIAL REGISTER INFORMATION

**Commercial Title:** GÜNEŞ SİGORTA ANONİM ŞİRKETİ  
**Trade Registration No:** 66019  
**Registration Date:** 17/09/1957  
**Company Address:** Büyükdere Cad. Güneş Plaza  
No: 110 Esentepe-Şişli / İSTANBUL  
**System No:** 0434005698400014

The second principal partner Groupama serves 13 million members and customers as an insurance company, bank and financial services provider through its “multi-channel” distribution network. Groupama S.A. is the eighth largest insurance company of France in the insurance market. Groupama ranks first in the agricultural and private health insurance segments, second in home insurances segment, and fourth in motor accident insurances segment.

Groupama gained a revenue of 10.3 billion Euro in total and a net profit of 133 million Euro by the end of 2015. While France constitutes its largest market accounting for 7.2 million Euro; the company has gained the revenue at the amount of 3.1 billion Euro from home and accident insurances; and the revenue at the amount of 4.0 billion Euro from life and health insurances in the market. Groupama has gained the remaining revenue amount of 3.1 billion Euro from its overseas insurance activities.

Outside France, Groupama is currently present in 11 countries including, in particular, Italy, Turkey, Hungary, Romania, Greece, Portugal, Bulgaria, Slovakia, Tunisia, China and Vietnam; and it has 33,500 employees.

# Unconsolidated Financial Statements And Independent Audit Report For The Fiscal Period Which Ended On The Date Of December 31<sup>st</sup>, 2016





**CONVENIENCE TRANSLATION OF THE INDEPENDENT AUDITOR'S REPORT OF  
GÜNEŞ SİGORTA A.Ş.  
FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016  
(ORIGINALLY ISSUED IN TURKISH)**

To the Board of Directors of Güneş Sigorta A.Ş.

**Report on the Financial Statements**

1. We have audited the accompanying financial statements of Güneş Sigorta A.Ş. ("the Company") which comprise the balance sheet as at 31 December 2016, the statement of income, the statement of changes in equity and the statement of cash flows for the period then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

2. The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting and financial reporting regulations enforced by insurance legislation and Turkish Accounting Standards for the matters not regulated by insurance legislation "Regulation on Insurance Accounting and Financial Reporting Principles" and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Independent Auditors' Responsibility*

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the regulations on the principles on auditing as set out in the insurance legislation and Independent Auditing Standards that part of Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority. Those standards require that ethical requirements are complied with and that the independent audit is planned and performed to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

**GÜNEŞ SİGORTA ANONİM ŞİRKETİ**

**CONVENIENCE TRANSLATION OF  
STATUTORY FINANCIAL STATEMENTS  
FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2016 AND  
THE INDEPENDENT AUDITOR'S REPORT  
(ORIGINALLY ISSUED IN TURKISH)**

PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.  
BJK Plaza, Süleyman Seba Caddesi No:48 B Blok Kat:9 Akaretler Beşiktaş 34357 İstanbul - Turkey  
T: +90 212 326 6060, F: +90 212 326 6050, www.pwc.com.tr Mersis Numaramız 0 1460 0224 0500015



*Opinion*

4. In our opinion, the financial statements present fairly, in all material respects, the financial position of Güneş Sigorta Anonim Şirketi as at 31 December 2016 and its financial performance and cash flows for the period then ended in accordance with Regulation on Insurance Accounting and Financial Reporting Principles.

**Other Responsibilities Arising From Regulatory Requirements**

5. In accordance with subparagraph 4 of Article 398 of the Turkish Commercial Code ("TCC") No: 6102; auditor's report on the early risk identification system and committee has been submitted to the Company's Board of Directors on 13 February 2017.
6. In accordance with subparagraph 4 of Article 402 of the TCC No: 6102; no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January - 31 December 2016 is not in compliance with TCC and provisions of the Company's articles of association in relation to financial reporting.
7. In accordance with subparagraph 4 of Article 402 of the TCC; the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

*Additional Paragraph for Convenience Translation into English*

8. As discussed in Note 2.31 to the accompanying financial statements, the effects of differences between the accounting principles as set out by the related insurance laws and accounting principles generally accepted in countries in which the accompanying financial statements are to be distributed and International Financial Reporting Standards ("IFRS") have not been quantified in the accompanying financial statements. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations and changes in financial position and cash flows in accordance with accounting principles generally accepted in such countries and IFRS.

PwC Bağımsız Denetim ve  
Serbest Muhasebeci Mali Müşavirlik A.Ş.



Talar Gül  
Partner

İstanbul, 13 February 2017

**UNCONSOLIDATED FINANCIAL STATEMENTS****AS AT 31 December 2016**

We confirm that the unconsolidated financial statements, related disclosures and footnotes as at 31 December 2016 which were prepared in accordance with the accounting principles and standards in force as per the regulations of Republic of Turkey Prime Ministry Undersecretariat of Treasury 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.

Güneş Sigorta A.Ş.

13 February 2017

Serhat Süreyya ÇETİN  
Member of Board of Directors  
General Manager



Murat KOYGUN  
Assistant General  
Manager



Uğur SEFİLOĞLU  
Financial Affairs  
Group Manager



M.Bahadır TAMKAN  
Technical Accounting  
Manager



Murat SÜZER  
General Accounting &  
Financial Reporting Manager



Orhun Emre ÇELİK  
Actuary  
Register No: 40



GÜNEŞ SİGORTA ANONİM ŞİRKETİ

CONVENIENCE TRANSLATION OF THE FINANCIAL STATEMENTS  
FOR THE PERIOD 1 JANUARY- DECEMBER 31 2016

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GÜNEŞ SİGORTA ANONİM ŞİRKETİ

CONVENIENCE TRANSLATION OF THE BALANCE SHEETS  
ON 31 DECEMBER 2016 AND 2015

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

ASSETS	Notes	Audited Current period 31 December 2016	Audited Prior Period 31 December 2015
<b>I- Current Assets</b>			
<b>A- Cash and Cash Equivalents</b>	<b>4.2, 14</b>	<b>665,210,904</b>	<b>500,867,514</b>
1- Cash		1,186	13,193
2- Cheques Received		-	-
3- Cash at Banks	14	556,902,445	408,230,506
4- Cheques Given and Payment Orders		-	-
5- Bank Warranted and Shorter than 3 months credit card receivables	14	108,299,498	92,621,611
6- Other Cash and Cash Equivalents	14	7,775	2,204
<b>B- Financial Assets and Financial Investments with Risks on Policyholders</b>	<b>4.2, 11</b>	<b>-</b>	<b>182,095</b>
1- Available-for-Sale Financial Asset	4.2, 11	-	182,095
2- Held to Maturity Investments		-	-
3- Financial Assets Held for Trading		-	-
4- Loans and Receivables		-	-
5- Provision for Loans and Receivables		-	-
6- Financial Investments with Risks on Saving Life Policyholders		-	-
7- Company's Own Equity Shares		-	-
8- Diminution in Value of Financial Investments		-	-
<b>C- Receivables from Main Operations</b>	<b>4.2, 12</b>	<b>395,166,808</b>	<b>403,038,868</b>
1- Receivables from Insurance Operations	12	399,041,568	401,043,583
2- Provision for Receivables from Insurance Operations (-)	4.2, 12	(8,062,991)	(2,495,043)
3- Receivables from Reinsurance Operations		-	-
4- Provision for Receivables from Reinsurance Operations (-)		-	-
5- Cash Deposited to Insurance and Reinsurance Companies		-	-
6- Loans to the Policyholders (Advance loan)		-	-
7- Loans to the Policyholders (-) (Advance loan) Provisions (-)		-	-
8- Receivables from Individual Pension Operations		-	-
9- Doubtful Receivables from Main Operations	12	135,285,580	103,101,704
10- Provision for Doubtful Receivables from Main Operations	4.2,12	(131,097,349)	(98,611,376)
<b>D- Due from Related Parties</b>			
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 (-)		-	-
<b>E- Other Receivables</b>	<b>47</b>	<b>3,708,745</b>	<b>4,239,350</b>
1- Finance Lease Receivables		-	-
2- Unearned Finance Lease Interest Income (-)		-	-
3- Deposits and Guarantees Given		-	-
4- Other Miscellaneous Receivables	47	3,708,745	4,239,350
5- Rediscount on Other Miscellaneous Receivables (-)		-	-
6- Other Doubtful Receivables		403,151	403,151
7- Provision for Other Doubtful Receivables (-)		(403,151)	(403,151)
<b>F- Prepaid Expenses and Income Accruals</b>		<b>99,188,353</b>	<b>90,914,866</b>
1- Deferred Acquisition Costs	17	91,138,398	83,866,181
2- Accrued Interest and Rent Income		-	-
3- Income Accruals		-	-
4- Other Prepaid Expenses	17	8,049,955	7,048,685
<b>G- Other Current Assets</b>		<b>8,631,893</b>	<b>6,958,143</b>
1- Stocks to be Used in the Following Months		-	-
2- Prepaid Taxes and Funds	4.2, 12	7,209,385	5,263,228
3- Deferred Tax Assets		-	-
4- Job Advances		-	-
5- Advances Given to Personnel	4.2, 45	58,822	156,009
6- Inventory Count Differences		-	-
7- Other Miscellaneous Current Assets	47	1,363,686	1,538,906
8- Provision for Other Current Assets (-)		-	-
<b>I- Total Current Assets</b>		<b>1,171,906,703</b>	<b>1,006,200,836</b>

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

**GÜNEŞ SİGORTA ANONİM ŞİRKETİ**

**CONVENIENCE TRANSLATION OF THE BALANCE SHEETS  
ON 31 DECEMBER 2016 AND 2015**

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

**ASSETS**

	Notes	Audited Current period 31 December 2016	Audited Prior period 31 December 2015
<b>II- Non-Current Assets</b>			
<b>A- Receivables from Main Operations</b>			
1- Receivables from Insurance Operations		-	-
2- Provision for Receivables from Insurance Operations (-)		-	-
3- Receivables from Reinsurance Operations		-	-
4- Provision for Receivables from Reinsurance Operations (-)		-	-
5- Cash Deposited for Insurance and Reinsurance Companies		-	-
6- Loans to the Policyholders		-	-
7- Provision for Loans to the Policyholders (-)		-	-
8- Receivables from Individual Pension Business		-	-
9- Doubtful Receivables from Main Operations		-	-
10- Provision for Doubtful Receivables from Main Operations (-)		-	-
<b>B- Due from Related Parties</b>			
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 (-)		-	-
<b>C- Other Receivables</b>			
1- Finance Lease Receivables	12	166,047	151,066
2- Unearned Finance Lease Interest Income (-)		-	-
3- Deposits and Guarantees Given	12	166,047	151,066
4- Other Miscellaneous Receivables		-	-
5- Rediscount on Other Miscellaneous Receivables (-)		-	-
6- Other Doubtful Receivables		-	-
7- Provision for Other Doubtful Receivables (-)		-	-
<b>D- Financial Assets</b>			
1- Investments in Equity Shares	9	374,603,827	325,970,350
2- Investments in Associates		-	-
3- Capital Commitments to Associates (-)		-	-
4- Investments in Subsidiaries	9	-	1,076,713
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 (-)		(17,716,956)	(19,356,521)
<b>E- Tangible Assets</b>			
1- Investment Property	7	15,205,000	14,924,000
2- Impairment on Investment Property (-)		-	-
3- Property Held for Own Use	6	176,095,000	164,680,000
4- Machinery and Equipment	6	7,299,635	9,532,061
5- Furniture and Fixtures	6	5,776,796	5,731,758
6- Motor Vehicles	6	418,444	586,107
7- Other Tangible Assets (Including Leasehold Improvements)	6	1,535,635	1,528,427
8- Tangible Assets Acquired Through Finance Leases	6	8,840,627	6,092,141
9- Accumulated Depreciation	6	(16,515,769)	(17,940,925)
10- Advances Paid for Tangible Assets (Including Construction in Progress)		-	-
<b>F- Intangible Assets</b>			
1- Rights	8	8,530,812	8,119,769
2- Goodwill		-	-
3- Pre-operating Expenses		-	-
4- Research and Development Costs		-	-
5- Other Intangible Assets	8	16,507,653	16,507,653
6- Accumulated Amortization (-)	8	(15,427,262)	(12,133,999)
7- Advances Paid for Intangible Assets		96,466	96,466
<b>G- Prepaid Expenses and Income Accruals</b>			
1- Deferred Acquisition Expenses		-	-
2- Income Accruals		-	-
3- Other Prepaid Expenses and Income Accruals		-	-
<b>H- Other Non-Current Assets</b>			
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	18,713,702	25,030,858
6- Other Miscellaneous Non-Current Assets		-	-
7- Amortization on Other Non-Current Assets (-)		-	-
8- Provision for Other Non-Current Assets (-)		-	-
<b>II- Total Non-Current Assets</b>			
		584,129,657	530,595,924
<b>TOTAL ASSETS</b>			
		1,756,036,360	1,536,796,760

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

**GÜNEŞ SİGORTA ANONİM ŞİRKETİ**

**CONVENIENCE TRANSLATION OF THE BALANCE SHEETS  
ON 31 DECEMBER 2016 AND 2015**

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

**LIABILITIES**

	Notes	Audited Current period 31 December 2016	Audited Prior period 31 December 2015
<b>III- Short-Term Liabilities</b>			
<b>A- Financial Liabilities</b>			
1- Borrowings from Financial Institutions	20	1,658,420	1,818,764
2- Finance Lease Payables	4.2, 20	1,739,714	1,972,523
3- Deferred Leasing Costs (-)	4.2, 20	(81,294)	(153,759)
4- Current Portion of Long-Term Debts		-	-
5- Principal Instalments and Interests on Bonds Issued		-	-
6- Other Financial Assets Issued		-	-
7- Valuation Differences of Other Financial Assets Issued		-	-
8- Other Financial Liabilities		-	-
<b>B- Payables Arising from Main Operations</b>			
1- Payables Arising from Insurance Operations	4.2, 19	176,526,366	181,543,075
2- Payables Arising from Reinsurance Operations		-	-
3- Cash Deposited by Insurance and Reinsurance Companies		-	-
4- Payables Arising from Individual Pension Business		-	-
5- Payables Arising from Other Main Operations		-	-
6- Discount on Payables from Other Main Operations (-)		-	-
<b>C- Due to Related Parties</b>			
1- Due to Shareholders	4.2, 45	12,105	15,066
2- Due to Associates		-	-
3- Due to Subsidiaries		-	-
4- Due to Joint Ventures		-	-
5- Due to Personnel	4.2, 45	12,105	-
6- Due to Other Related Parties		-	-
<b>D- Other Payables</b>			
1- Deposits and Guarantees Received	19	4,790,622	4,780,422
2- Debts to SSI for treatment expenses	19	15,633,863	16,480,461
3- Other Miscellaneous Payables	19	(84,648)	(66,604)
4- Discount on Other Miscellaneous Payables (-)	19	-	-
<b>E- Insurance Technical Provisions</b>			
1- Reserve for Unearned Premiums - Net	17	377,625,836	349,973,798
2- Reserve for Unexpired Risks- Net	2.24, 17	1,778,282	48,509,456
3- Life Mathematical Provisions - Net		-	-
4- Provision for Outstanding Claims - Net	17	604,851,235	518,592,525
5- Provision for Bonus and Discounts - Net		-	-
6- Other Technical Provisions - Net	10, 17	21,497,122	2,085,855
<b>F- Provisions for Taxes and Other Similar Obligations</b>			
1- Taxes and Funds Payable		21,071,396	17,146,105
2- Social Security Premiums Payable		1,600,992	1,378,245
3- Overdue, Deferred or By Installment Taxes and Other Liabilities		-	-
4- Other Taxes and Similar Payables		-	-
5- Corporate Tax Provision and Other Fiscal Liabilities		-	-
6- Prepaid Taxes and Other Liabilities Regarding Current Period Profit (-)		-	-
7- Provisions for Other Taxes and Similar Liabilities		-	-
<b>G- Provisions for Other Risks</b>			
1- Provision for Termination Indemnities	23	3,763,879	3,987,399
2- Provision for Pension Fund Deficits		-	-
3- Provisions for Costs	23	3,763,879	3,987,399
<b>H- Deferred Income and Expense Accruals</b>			
1- Deferred Commission Income	10, 19	55,594,535	54,530,906
2- Expense Accruals		-	-
3- Other Deferred Income and Expense Accruals		-	-
<b>I- Other Short-Term Liabilities</b>			
1- Deferred Tax Liabilities		-	-
2- Inventory Count Differences		-	-
3- Other Various Short Term Liabilities		-	-
<b>III - Total Short-Term Liabilities</b>			
		1,286,320,005	1,200,775,473

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



## GÜNEŞ SİGORTA ANONİM ŞİRKETİ

### CONVENIENCE TRANSLATION OF THE BALANCE SHEETS ON 31 DECEMBER 2016 AND 2015

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

#### LIABILITIES

	Notes	Audited Current period 31 December 2016	Audited Prior period 31 December 2015
<b>IV- Long-Term Liabilities</b>			
<b>A- Financial Liabilities</b>	<b>20</b>	-	<b>278,195</b>
1- Borrowings from Financial Institutions		-	-
2- Finance Lease Payables	4.2, 20	-	287,370
3- Deferred Leasing Costs (-)		-	(9,175)
4- Bonds Issued		-	-
5- Other Financial Assets Issued		-	-
6- Valuation Differences of Other Financial Assets Issued (-)		-	-
7- Other Financial Liabilities		-	-
<b>B- Payables Arising from Main Operations</b>		-	-
1- Payables Arising from Insurance Operations		-	-
2- Payables Arising from Reinsurance Operations		-	-
3- Cash Deposited by Insurance and Reinsurance Companies		-	-
4- Payables Arising from Individual Pension Business		-	-
5- Payables Arising from Other Operations		-	-
6- Discount on Payables from Other Operations (-)		-	-
<b>C- Due to Related Parties</b>		-	-
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		-	-
<b>D- Other Payables</b>		<b>3,050,696</b>	<b>2,426,450</b>
1- Deposits and Guarantees Received		3,050,696	2,426,450
2- Debts to SSI for treatment expenses		-	-
3- Other Miscellaneous Payables		-	-
4- Discount on Other Miscellaneous Payables (-)		-	-
<b>E- Insurance Technical Provisions</b>	<b>2.26, 17</b>	<b>22,917,755</b>	<b>18,479,283</b>
1- Reserve for Unearned Premiums – Net		-	-
2- Reserve for Unexpired Risks - Net		-	-
3- Life Mathematical Provisions - Net		-	-
4- Provision for Outstanding Claims - Net		-	-
5- Provision for Bonus and Discounts – Net		-	-
6- Other Technical Provisions – Net	2.26, 17	22,917,755	18,479,283
<b>F- Other Liabilities and Relevant Accruals</b>		-	-
1- Other Liabilities		-	-
2- Overdue, Deferred or By Instalment Taxes and Other Liabilities		-	-
3- Other Liabilities and Expense Accruals		-	-
<b>G- Provisions for Other Risks</b>	<b>23</b>	<b>10,552,843</b>	<b>8,734,945</b>
1- Provisions for Severance Pay	23	10,552,843	8,734,945
2- Provisions for Employee Pension Funds Deficits		-	-
<b>H- Deferred Income and Expense Accruals</b>		-	-
1- Deferred Income		-	-
2- Expense Accruals		-	-
3- Other Deferred Income and Expense Accruals		-	-
<b>I- Other Long-Term Liabilities</b>		-	-
1- Deferred Tax Liabilities		-	-
2- Other Long-Term Liabilities		-	-
<b>IV- Total Long-Term Liabilities</b>		<b>36,521,294</b>	<b>229,918,873</b>

## GÜNEŞ SİGORTA ANONİM ŞİRKETİ

### CONVENIENCE TRANSLATION OF THE BALANCE SHEETS ON 31 DECEMBER 2016 AND 2015

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

#### SHAREHOLDERS' EQUITY

	Notes	Audited Current period 31 December 2016	Audited Prior period 31 December 2015
<b>V- Shareholders' Equity</b>			
<b>A- Paid in Capital</b>	<b>2.13, 15</b>	<b>270,000,000</b>	<b>150,000,000</b>
1- (Nominal) Capital	2.13, 15	270,000,000	150,000,000
2- Unpaid Capital (-)		-	-
3- Positive Capital Restatement Differences		-	-
4- Negative Capital Restatement Differences (-)		-	-
5- Capital To Be Registered		-	-
<b>B- Capital Reserves</b>	<b>15</b>	<b>78,403,322</b>	<b>17,822,568</b>
1- Share Premium		654,992	-
2- Cancellation Profits of Equity Shares		-	-
3- Profit on Asset Sales That Will Be Transferred to Capital		-	-
4- Currency Translation Adjustments		-	-
5- Other Capital Reserves	15	77,748,330	17,822,568
<b>C- Profit Reserves</b>		<b>433,790,832</b>	<b>377,035,804</b>
1- Legal Reserves	15	4,949,441	4,949,441
2- Statutory Reserves		-	-
3- Extraordinary Reserves		-	-
4- Special Funds (Reserves)		-	-
5- Revaluation of Financial Assets	15	286,146,708	239,953,208
6- Other Profit Reserves	15	142,694,683	132,133,155
<b>D- Retained Earnings</b>		-	-
1- Retained Earnings		-	-
<b>E- Accumulated Losses (-)</b>		<b>(298,236,645)</b>	<b>(76,187,078)</b>
1- Accumulated Losses (-)		(298,236,645)	(76,187,078)
<b>F- Net Profit/(Loss) for the Period</b>	<b>37</b>	<b>(50,762,448)</b>	<b>(162,568,880)</b>
1- Net Profit for the Year		-	-
2- Net Loss for the Year (-)		(51,418,200)	(222,494,642)
3- Net Profit That Is Not Subject To Distribution	15	655,752	59,925,762
<b>Total Equity</b>		<b>433,195,061</b>	<b>306,102,414</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,756,036,360</b>	<b>1,536,796,760</b>

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

GÜNEŞ SİGORTA ANONİM ŞİRKETİ

CONVENIENCE TRANSLATION OF THE STATEMENTS OF INCOME  
FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2016 AND 2015

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

I- TECHNICAL PART

	Notes	Audited 1 January - 31 December 2016	Audited 1 January - 31 December 2015
<b>A- Non-Life Technical Income</b>		<b>841,704,113</b>	<b>763,252,915</b>
1- Earned Premiums (Net of Reinsurer Share)		769,888,495	664,111,435
1.1- Written Premiums (Net of Reinsurer Share)	17	750,809,359	724,034,071
1.1.1- Written Premiums, gross	17	1,372,978,363	1,288,378,653
1.1.2- Written Premiums, ceded	10, 17	(597,714,030)	(541,978,659)
1.1.3- Premiums transferred to SSI	4.2, 10, 17	(24,454,974)	(22,365,923)
1.2- Change in Reserve for Unearned Premiums (Net of Reinsurer Shares and Less the Amounts Carried Forward)	17	(27,652,038)	(24,000,363)
1.2.1- Reserve for Unearned Premiums, gross	17	(50,379,548)	(54,248,820)
1.2.2- Reserve for Unearned Premiums, ceded	10, 17	19,272,219	32,768,164
1.2.3- SSI Share of Reserve for Unearned Premium	10, 17	3,455,291	(2,519,707)
1.3 Changes in Reserve for Unexpired Risks (Net of Reinsurer Share and Less the Amounts Carried Forward)	17	46,731,174	(35,922,273)
1.3.1- Reserve for Unexpired Risks, gross	17	49,805,600	(47,079,237)
1.3.2- Reserve for Unexpired Risks, ceded	10, 17	(3,074,426)	11,156,964
2- Investment Income - Transferred from Non-Technical Section		40,918,811	52,327,372
3- Other Technical Income (Net of Reinsurer Share)		3,100,841	406,259
3.1- Other Technical Income, gross		3,100,841	406,259
3.2- Other Technical Income, ceded		-	-
4- Accrued salvage and subrogation income		27,795,966	46,407,849
<b>B- Non-Life Technical Expense</b>		<b>(823,782,558)</b>	<b>(906,139,184)</b>
1- Incurred Losses (Net of Reinsurer Share)		(613,787,149)	(688,751,465)
1.1- Claims Paid (Net of Reinsurer Share)		(527,528,439)	(521,178,847)
1.1.1- Claims Paid, gross		(757,106,144)	(696,390,840)
1.1.2- Claims Paid, ceded	10	229,577,705	175,211,993
1.2- Change in Provisions for Outstanding Claims (Net of Reinsurer Share and Less the Amounts Carried Forward)	17	(86,258,710)	(167,572,618)
1.2.1- Change in Provisions for Outstanding Claims, gross	17	(150,528,287)	(261,315,875)
1.2.2- Change in Provisions for Outstanding Claims, ceded	10, 17	64,269,577	93,743,257
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)	17	(4,438,471)	(3,824,359)
4- Operating Expenses	32	(205,556,938)	(213,563,360)
5- Change in mathematical provisions (net off circulating part) (Net off Circulating Part)		-	-
5.1- Mathematical Provisions		-	-
5.2- Mathematical Provisions, ceded		-	-
6- Other Technical Expenses		-	-
6.1- Other Technical Expenses, gross		-	-
6.2- Gross Other Technical Expenses, ceded		-	-
<b>C- Net Technical Income-Non-Life (A – B)</b>		<b>17,921,555</b>	<b>(142,886,269)</b>
<b>D- Life Technical Income</b>		-	-
1- Earned Premiums (Net of Reinsurer Share)		-	-
1.1- Written Premiums (Net of Reinsurer Share)		-	-
1.1.1- Written Premiums, gross		-	-
1.1.2- Written Premiums, ceded		-	-
1.2- Change in Reserve for Unearned Premiums (Net of Reinsurer Shares and Less the Amounts Carried Forward)		-	-
1.2.1- Reserve for Unearned Premiums, gross		-	-
1.2.2- Reserve for Unearned Premiums, ceded		-	-
1.3- Change in Reserve for Unexpired Risks (Net of Reinsurer Share and Less the Amounts Carried Forward)		-	-
1.3.1- Reserve for Unexpired Risks, gross		-	-
1.3.2- Reserve for Unexpired Risks, ceded		-	-
2- Investment Income		-	-
3- Unrealized Gains on Investments		-	-
4- Other Technical Income (Net of Reinsurer Share)		-	-
4.1- Other Technical Expenses, gross		-	-
4.2- Gross Other Technical Expenses, reinsurer share		-	-
5- Accrued subrogation income		-	-

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

GÜNEŞ SİGORTA ANONİM ŞİRKETİ

CONVENIENCE TRANSLATION OF THE STATEMENTS OF INCOME  
FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2016 AND 2015

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

I- TECHNICAL PART

	Notes	Audited 1 January - 31 December 2016	Audited 1 January - 31 December 2015
<b>E- Life Technical Expense</b>		-	-
1- Incurred Losses (Net of Reinsurer Share)		-	-
1.1- Claims Paid (Net of Reinsurer Share)		-	-
1.1.1- Claims Paid, gross		-	-
1.1.2- Claims Paid, ceded		-	-
1.2- Change in Provisions for Outstanding Claims (Net of Reinsurer Share and Less the Amounts Carried Forward)		-	-
1.2.1- Change in Provisions for Outstanding Claims, gross		-	-
1.2.2- Change in Provisions for Outstanding Claims, ceded		-	-
2- Change in Provision for Bonus and Discounts (Net of Reinsurer Share and Less the Amounts Carried Forward)		-	-
2.1- Provision for Bonus and Discounts, gross		-	-
2.2- Provision for Bonus and Discounts, ceded		-	-
3- Change in Life Mathematical Provisions (Net of Reinsurer Share and Less the Amounts Carried Forward)		-	-
3.1- Mathematical Reserves (-)		-	-
3.1.1- Actuarial Mathematical Reserves (+/-)		-	-
3.1.2- Profit Share Reserve (For Permanent Life Insurance Policies)		-	-
3.2- Reinsurers' Share of Mathematical Reserves (+)		-	-
3.2.1- Reinsurer's Share of Actuarial Mathematical Reserves (+)		-	-
3.2.2- Reinsurer's Share of Profit Share Reserve- (for Permanent Life Insurance Policies) (+)		-	-
4- Change in Other Technical Reserves (Net of Reinsurer Share and Less the Amounts Carried Forward)		-	-
5- Operating Expenses		-	-
6- Investment Expenses		-	-
7- Unrealized Losses on Investments		-	-
8- Investment Income Transferred to the Non-Life Technical Section		-	-
<b>F- Net Technical Income- Life (D – E)</b>		-	-
<b>G- Pension Business Technical Income</b>		-	-
1- Fund Management Income		-	-
2- Management Fee		-	-
3- Entrance Fee Income		-	-
4- Management Expense Charge in case of Suspension		-	-
5- Income from Individual Service Charges		-	-
6- Increase in Value of Capital Allowances Given as Advance		-	-
7- Other Technical Expense		-	-
<b>H- Pension Business Technical Expense</b>		-	-
1- Fund Management Expense		-	-
2- Decrease in Value of Capital Allowances Given as Advance		-	-
3- Operating Expenses		-	-
4- Other Technical Expenses		-	-
<b>I- Net Technical Income - Pension Business (G – H)</b>		-	-

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

## GÜNEŞ SİGORTA ANONİM ŞİRKETİ

### CONVENIENCE TRANSLATION OF THE STATEMENTS OF INCOME FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2016 AND 2015

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

#### II - NON-TECHNICAL PART

	Notes	Audited 1 January - 31 December 2016	Audited 1 January - 31 December 2015
<b>C- Net Technical Income – Non-Life (A-B)</b>		<b>17,921,555</b>	<b>(142,886,269)</b>
<b>F- Net Technical Income – Life (D-E)</b>		-	-
<b>I- Net Technical Income – Pension Business (G-H)</b>		-	-
<b>J- Total Net Technical Income (C+F+I)</b>		<b>17,921,555</b>	<b>(142,886,269)</b>
<b>K- Investment Income</b>		<b>82,849,995</b>	<b>100,241,570</b>
1- Income from Financial Assets	26	47,253,274	33,307,334
2- Income from Disposal of Financial Assets		-	-
3- Valuation of Financial Assets	26	(1,470,343)	3,301,412
4- Foreign Exchange Gains	26	33,102,066	37,600,560
5- Income from Associates	26	491,575	8,695,000
6- Income from Subsidiaries and Joint Ventures	26	561,013	-
7- Income from Property, Plant and Equipment	26	2,904,823	17,138,926
8- Income from Derivative Transactions		-	-
9- Other Investments	26	7,587	198,338
10- Income Transferred from Life Section		-	-
<b>L- Investment Expense</b>		<b>(89,647,014)</b>	<b>(91,510,436)</b>
1- Investment Management Expenses (Inc. interest)	4.2	(3,771,294)	(3,540,315)
2- Diminution in Value of Investments		-	-
3- Loss from Disposal of Financial Assets		(222)	-
4- Investment Income Transferred to Non-Life Technical Section	4.2	(40,918,811)	(52,327,372)
5- Loss from Derivative Transactions		-	-
6- Foreign Exchange Losses	4.2	(33,211,246)	(23,949,663)
7- Depreciation and Amortization Expenses	4.2, 6, 8	(7,057,503)	(6,369,916)
8- Other Investment Expenses	4.2	(4,687,938)	(5,323,170)
<b>M- Income and Expenses From Other and Extraordinary Operations</b>		<b>(61,886,984)</b>	<b>(28,413,745)</b>
1- Provisions	47	(59,543,634)	(40,891,816)
2- Discounts		(109,318)	(497,741)
3- Specified Insurance Accounts		-	-
4- Monetary Gains and Losses		-	-
5- Deferred Taxation (Deferred Tax Assets)	21, 35	(2,951,458)	10,846,647
6- Deferred Taxation (Deferred Tax Liabilities)		-	-
7- Other Income		2,563,615	2,424,870
8- Other Expenses and Losses		(1,846,189)	(295,705)
9- Prior Year's Income		-	-
10- Prior Year's Expenses and Losses		-	-
<b>N- Net Profit for the Year</b>	<b>37</b>	<b>(50,762,448)</b>	<b>(162,568,880)</b>
1- Profit for the Year	37	(50,762,448)	(162,568,880)
2- Corporate Tax Provision and Other Fiscal Liabilities		-	-
3- Net Profit for the Year	37	(50,762,448)	(162,568,880)
4- Monetary Gains and Losses		-	-

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

## GÜNEŞ SİGORTA ANONİM ŞİRKETİ

### CONVENIENCE TRANSLATION OF THE STATEMENTS OF CASH FLOWS FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2016 AND 2015

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

	Notes	Audited Current period 31 December 2016	Audited Prior period 31 December 2015
<b>A. CASH GENERATED FROM MAIN OPERATIONS</b>			
1. Cash provided from insurance activities		1,651,409,844	1,544,949,807
2. Cash provided from reinsurance activities		-	-
3. Cash provided from pension business		-	-
4. Cash used in insurance activities		(1,627,697,014)	(1,554,740,507)
5. Cash used in reinsurance activities		-	-
6. Cash used in pension business		-	-
<b>7. Cash Provided From Operating Activities</b>		<b>23,712,830</b>	<b>(9,790,700)</b>
8. Interest paid		-	-
9. Income taxes paid		(7,087,991)	(1,647,744)
10. Other cash inflows		2,563,615	-
11. Other cash outflows		(13,801,829)	(13,785,105)
<b>12. Net Cash Provided From Operating Activities</b>		<b>5,386,625</b>	<b>(25,223,549)</b>
<b>B. CASH FLOWS FROM INVESTING OPERATIONS</b>			
1. Disposal of tangible and intangible assets		1,897,903	93,643,000
2. Acquisition of tangible and intangible assets	6, 8	(4,613,011)	(3,982,731)
3. Acquisition of financial assets	11	-	(2,054,180)
4. Disposal of financial assets	11	182,095	8,580,044
5. Interests received		47,253,273	36,295,687
6. Dividends received	9, 45	491,575	8,695,000
7. Other cash inflows		553,534	738,926
8. Other cash outflows		(3,771,294)	(5,181,124)
<b>9. Net Cash Provided by Investing Activities</b>		<b>41,994,075</b>	<b>136,734,622</b>
<b>C. CASH FLOWS FROM FINANCING OPERATIONS</b>			
1. Equity shares issued	2.13, 15	120,654,992	-
2. Cash provided from loans and borrowings		-	-
3. Finance lease payments		(3,052,258)	(1,539,200)
4. Dividends paid		-	-
5. Other cash inflows		-	-
6. Other cash outflows		-	(932,000)
<b>7. Net Cash Used In Financing Activities</b>		<b>117,602,734</b>	<b>(2,471,200)</b>
<b>D. EFFECT OF EXCHANGE DIFFERENCES ON CASH AND CASH EQUIVALENTS</b>		<b>(5,695,470)</b>	<b>20,990,715</b>
<b>E. Net increase/ (decrease) in cash and cash equivalents</b>		<b>159,287,964</b>	<b>130,030,588</b>
<b>F. Cash and cash equivalents at the beginning of the period</b>	<b>14</b>	<b>360,867,854</b>	<b>230,837,266</b>
<b>G. Cash and cash equivalents at the end of the period</b>	<b>14</b>	<b>520,155,818</b>	<b>360,867,854</b>

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



**GÜNEŞ SİGORTA ANONİM ŞİRKETİ**

**CONVENIENCE TRANSLATION OF THE STATEMENT OF CHANGES IN EQUITY FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2016 AND 2015**

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

	Statements of Changes in Equity – Audited (*)							Total			
	Share Capital	Own Shares of the Company (-)	Value Increase/ (Decrease) In Assets	Inflation Adjustment Differences In Shareholders' Reserves	Currency Translation Adjustments	Legal Reserves	Statutory Reserve				
<b>PRIOR PERIOD</b>											
<b>I – Balance at the Prior Period End - 31 December 2014</b>	150,000,000	-	186,842,726	-	-	4,949,441	-	121,125,600	13,439,548	(89,853,704)	386,503,611
A – Capital increase											
1 – Cash											
2 – Internal Resources											
B – Own Shares of the Company											
C – Gain and losses not recognized in the statement of income (Note 15)											
D – Change in the value of financial assets			53,110,482					(136,371)			52,974,111
E – Currency translation adjustments								29,162,003			29,162,003
F – Other gains or losses (Note 6)								(224,249)		255,818	31,569
G – Inflation adjustment differences											
H – Net profit for the period									(162,568,880)		(162,568,880)
I – Dividends paid								28,740	(13,439,548)	13,410,808	
J – Transfer											
<b>II – Balance at – 31 December 2015</b>	150,000,000	-	239,953,208	-	-	4,949,441	-	149,955,723	(162,568,880)	(76,187,078)	306,102,414
<b>CURRENT PERIOD</b>											
<b>I – Balance at the Prior Period End – 31 December 2015</b>	150,000,000	-	239,953,208	-	-	4,949,441	-	149,955,723	(162,568,880)	(76,187,078)	306,102,414
A – Capital increase	120,000,000	-		-	-		-	654,992			120,654,992
1 – Cash	120,000,000	-		-	-		-	654,992			
2 – Internal Resources											
B – Own Shares of the Company											
C – Gain and losses not recognized in the statement of income (Note 15)			46,193,500					(578,815)			45,614,685
D – Change in the value of financial assets								11,524,727			11,524,727
E – Currency translation adjustments								(384,384)		445,075	60,691
F – Other gains or losses (Note 6)											
G – Inflation adjustment differences									(50,762,448)		(50,762,448)
H – Net profit for the period									162,568,880	(222,494,642)	
I – Dividends paid								59,925,762			
J – Transfer											
<b>II – Balance at – 31 December 2016</b>	270,000,000	-	286,146,708	-	-	4,949,441	-	221,098,005	(50,762,448)	(298,236,645)	433,195,061

(\*) Detailed explanations for the shareholders' equity items are disclosed in Note 15

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

**GÜNEŞ SİGORTA ANONİM ŞİRKETİ**

**CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016**

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

**1. GENERAL INFORMATION**

**1.1 Name of the Company and the ultimate parent of the group**

As at 31 December 2016, the major shareholders of Güneş Sigorta Anonim Şirketi (the "Company") are Türkiye Vakıflar Bankası TAO ("Vakıflar Bankası") and Groupama SA (Note 2.13).

**1.2 Location 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 has been registered in Istanbul, Turkey in 1957 and operates as a joint stock company in accordance with Turkish Commercial Code ("TCC"). The Headquarter of the Company is located in "Güneş Plaza, Büyükdere Cad. No: 110 Esentepe Şişli 34394".

Excepting Istanbul – Headquarter office, the Company has regional offices, Istanbul - Centre, Istanbul - Kadıköy, Istanbul - West, Middle Anatolia, Aegean, South Anatolia, Blacksea, Mediterranean, The Marmara, East Anatolia, and Turkish Republic of Northern Cyprus, as the current year the İstanbul 1.Region, İstanbul 2.Region, İstanbul 3.Region, Middle Anatolia, Aegean -Mediterranean, South Anatolia financial region offices are opened. The Company has also representative offices in Erzurum, Kayseri and Samsun.

**1.3 Nature of operations**

The Company operates in non-life insurance branches consisting of automotive and non-automotive accident, fire, transportation, engineering, health, agriculture and legal protection.

**1.4 Description of the main operations of the Company**

The Company conducts its operations as stated in Note 1.3 above in accordance with the Insurance Law No.5684 issued in the Official Gazette dated 14 June 2007 and numbered 26552 ("the Insurance Law") and the communiqués and other regulations in effect issued by Treasury. As at 31 December 2016, the Company has 1,546 authorized agencies aggregating (31 December 2015: 1,784 authorized and 2 unauthorized agencies).

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

The average number of the personnel during the period was as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Senior Management (*)	17	16
Other Personnel	593	608
<b>Total</b>	<b>610</b>	<b>624</b>

(\*) The Company's general manager and assistant general managers are included.

**1.6 The total amount of the salaries and similar benefits provided to the senior management including Chairman, Member of the Board of Directors, General Manager, General Coordinator, and Assistant General Managers:**

	1 January - 31 December 2016	1 January - 31 December 2015
Salaries	2,513,646	1,929,899
Bonuses	779,411	642,559
Title and license claims	330,051	224,258
Group and individual pension contributions	59,242	43,550
Transportation, food and fuel contributions	18,056	17,543
Other paid benefits	39,352	78,904
<b>Total benefits provided to senior management</b>	<b>3,739,758</b>	<b>2,936,713</b>
<b>Provision for employment termination benefits</b>	<b>213,282</b>	<b>177,156</b>

**CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016**

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

**1. GENERAL INFORMATION (Continued)**

**1.7 Criteria set for the allocation of investment income and operating expenses (personnel, management, research and development, marketing and sales, outsourcing utilities and services and other operating expenses) in the financial statements**

Procedures and principles related to keys used in the distribution of investment income and operating expenses in the financial statements are determined in accordance with "Communiqué on the Procedures and Principles for the Keys Used in the Financial Statements Being Prepared In accordance with Insurance Accounting Plan" dated 4 January 2008 and numbered 2008/1 issued Prime Ministry Undersecretariat of Treasury of the Turkish Republic ("the Turkish Treasury").

In accordance with the related communiqué, all income that is generated by the Company assets invested for non-life technical provisions is transferred from non-technical to technical part. The other investment income is classified under non-technical part. The Company allocates general expenses transferred to technical part to branches based on the weighted average of the number of policies, amount of premium production and number of claim notifications in last three years.

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

The financial statements include only one company (Güneş Sigorta Anonim Şirketi).

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

Name of the Company : Güneş Sigorta Anonim Şirketi  
Registered address of the head office : Güneş Plaza, Büyükdere Cad. No:110  
Esentepe Şişli 34394 İstanbul  
The website of the Company : [www.gunessigorta.com.tr](http://www.gunessigorta.com.tr)

**1.10 Subsequent Events**

Explanations related to subsequent events are disclosed in detail in Note 46.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.1 Basis of preparation**

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

The Company prepares its financial statements in accordance with the Insurance Law numbered 5684 and the regulations issued for insurance and reinsurance companies by the Undersecretariat of Treasury (the "Treasury").

The financial statements are prepared in accordance with the Insurance Chart of Accounts included in the communiqué issued by the Treasury regarding the Insurance Chart of Accounts and Prospects, published in the Official Gazette (No: 25686) dated 30 December 2004 (Insurance Accounting System Communiqué No.1) and 27 December 2011 dated and 2011/14 numbered Notice regarding to the Opening of New Account Codes In Insurance Account Plan. Content and the format of the financial statements prepared and explanations and notes thereof are determined in accordance with the Communiqué on Presentation of Financial Statements published in the Official Gazette numbered 26851 dated 18 April 2008 and numbered 2012/7 and dated 31 May 2012 Notice regarding to the Presentation of the New Account Codes and Financial Statements.

**CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.1.1 Information about the principles and the special accounting policies used in the preparation of the financial statements(Continued)**

The financial statements were prepared as in a TRY and historical cost basis, being adjusted for inflation until 31 December 2004, except for the financial assets and investment properties and properties held for use measured at their fair value.

In accordance with the "Regulation on Financial Reporting of Insurance and Reinsurance Companies and Pension Companies" issued on 14 July 2007 and effective from 1 January 2008, and also in accordance with the communiqués which may be issued by the Treasury, operations of insurance companies shall be accounted for in accordance with the Turkish Accounting Standards ("TAS") and the Turkish Financial Reporting Standards ("TFRS") as issued by the Turkish Accounting Standards Board ("TASK") and other regulations, communiqués and explanations issued by the Treasury regarding accounting and financial reporting issues. With reference to the notice of the Treasury No. 9 dated 18 February 2008, "TAS 1- Financial Statements and Presentation", "TAS 27- Consolidated and Unconsolidated Financial Statements", "TFRS 1 - Transition to TFRS" and "TFRS 4- Insurance Contracts" have been scoped out of this application. In addition, insurance companies are not required to prepare consolidated financial statements pursuant to the official statement on Regulation of Consolidated Financial Statements of Insurance and Reinsurance Companies and Pension Companies issued in the Official Gazette, dated on 31 December 2008 and numbered 27097.

The Company accounts and recognises its insurance technical reserves in its financial statements as of 31 December 2016 in accordance with the "Regulation on Technical Reserves of Insurance, Reinsurance and Pension Companies and the Assets to which These Reserves Are Invested" ("Regulation on Technical Reserves") dated 28 July 2010 published in official gazette numbered 27655 and changes on this regulation on 17 July 2012 and numbered 28356 and other regulations issued for insurance and reinsurance companies by the Treasury (Note 2.23, 2.24, 2.25 and 2.26).

**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.

It was announced with the article of the Treasury numbered 19387, dated 4 April 2005, insurance companies are required to restate their financial statements as of 31 December 2004 in accordance with "Financial Reporting in Hyperinflationary Economies" included in the regulations of Capital Markets Board ("CMB") Communiqué XI No.25 (which came into force as published in the Official Gazette No: 25290 dated 15 January 2003). In line with the decree of CMB dated 17 March 2005, Treasury also announced that inflation accounting is not required effective from 1 January 2005. Based on the above mentioned notification of the Treasury, the Company has restated its financial statements as of 31 December 2004 in accordance with the regulations on "Financial Reporting in Hyperinflationary Economies" and not continued to apply TAS 29 "Financial Reporting in Hyperinflationary Economies".

**CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.1.3 Functional and presentation currency**

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

**2.1.4 Rounding of the amounts presented in the financial statements**

The financial information presented in TRY has been rounded to the nearest TRY values.

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

The accompanying financial statements are prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2004, except for the financial assets held for trading, available for sale financial assets, investment property, owner occupied property of the Company and investments in associates which are stated at their fair values.

**2.1.6 Accounting policies, changes in accounting estimates and errors**

A modification or a failure does not exist in accounting policies and estimates in the current period.

Explanations to accounting estimates are declared in Note 3.

**2.1.7 Comparative information**

Where necessary, comparative information has been reclassified so that conform the compatibility to the presentation of financial statements for the current period. Shares of Vakıf Emeklilik A.Ş., that has been classified as investment in associate as of 31 December 2015 and measured by its fair value, has been classified as investments in equity shares in order to ensure consistency with the current period and measurement principles.

**2.2 Consolidation**

"Circular on the Preparation of the Consolidated Financial Statements of Insurance, Reinsurance and Individual Pension Companies" issued by Treasury in the Official Gazette dated 31 December 2008 and numbered 27097 ("the Circular for Consolidation") requires that insurance, reinsurance and individual pension companies issue consolidated financial statements starting from 31 March 2009. The processes for liquidation of Güneş Turizm End. ve Ticaret A.Ş., the subsidiary of the Company, has been completed upon being registered through the Trade Registry Gazette on 21 October 2016. As a result of this liquidation process, the Company does not have any subsidiary that is required to be consolidated starting from 31 December 2016. Vakıf Emeklilik A.Ş., that was accounted based on the equity method in the consolidated financial statements in prior periods, has been maintained as available for sale financial asset on these financial statements considering that there is no significant influence.

**2.3 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.

Since the main economic environment, where the Company operates, is Turkey, a geographical segment reporting has not been presented.

Information about the Company's business reports regarding all branches are explained in the context of TFRS 8 - Business segments in Note 5.

**CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.4 Foreign currency transactions**

Transactions are recorded in TRY, which is the Company's functional currency. Transactions in foreign currencies are recorded at the rates ruling at the date 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 amortized cost of the asset and other changes in the carrying amount of the asset. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in equity.

Foreign exchange differences arising from the translation of non-monetary financial assets and liabilities are considered as part of the fair value changes and those differences are accounted for in the accounts in which the fair value changes are accounted for.

**2.5 Tangible assets**

All tangible assets except for buildings for operational use are carried at cost by deducting accumulated depreciation. Properties for operational use are recorded at their fair value on the basis of a valuation made by an independent valuation expert less subsequent accumulated depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net carrying amount is restated to the revalued amount.

Increases in the carrying amounts arising on revaluation of property, net of tax effects, are credited to "Other Capital Reserves" under shareholders' equity. Any subsequent decrease in value offsetting previous increases in the carrying amount of the same asset is charged against the funds in the equity; and all other decreases are charged to profit or loss. At each reporting date, the difference between depreciation based on the revalued carrying amount of the asset and the depreciation based on the asset's original cost is transferred from "Other Capital reserves" to retained earnings.

Gains/losses arising from the disposal of the tangible assets are calculated as the difference between the net book value and the net sales price and reflected to the statement of income of the related period. Maintenance and repair costs incurred in the ordinary course of the business are recorded as expense.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the costs or revalued amounts of tangible assets. Depreciation rates and estimated useful lives are below.

	Estimated Useful Lives (years)	Depreciation Rates (%)
Properties for operational use (Buildings)	50	2
Furniture and fixtures	4-50	25-2
Motor vehicles	4-5	25-20
Other tangible assets (including leasehold improvements)	3-5	33-20



## CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****2.5 Tangible assets (Continued)**

An investigation is to be performed to determine the possible impairment in case of there are existing conditions which point out impairment of tangible assets except properties for operational use and as a result of that investigation; accrual is to be booked to reduce net book value of tangible assets in case of recoverable value amount is less than net book value of related tangible asset. Profits and losses arising from disposal of tangible assets will be kept in "Other income and expense" account. In case of disposal of revalued assets; amount on "Other Capital Reserves" account related to that assets is to be transferred to retained earnings account (Note 6).

**2.6 Investment property**

The lands and buildings, which are obtained either to earn income or for capital appreciation or for both, instead of either for the Company's operations or for management purposes or for sale during the regular operations, are classified under investment properties. Investment properties are reflected in the financial statement at fair value. Changes in fair values of investment properties are recognized in the income statement under investment income (Note 7).

**2.7 Intangible assets**

The Company's intangible assets consist of rights and computer software. Intangible assets are accounted at cost accounting for intangible assets.

The Company, record the amortization amount for intangible assets on a straight-line basis over their estimated useful lives. The useful lives of intangible assets vary between 5 and 10 years (Note 8).

**2.8 Financial assets****Classification and measurement**

A financial asset is any asset that is cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity. Financial assets are classified in two categories; as, available-for-sale financial assets and loans and receivables.

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

*Available-for-sale financial assets* are the financial assets other than loans and receivables. Available-for-sale financial assets are initially recorded at cost and subsequently measured at their fair values. However, assets that are not traded in an active market are measured by using 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 profit or loss. During the available-for-sale asset is first recognized, additional costs of recognition will be added to fair value.

## CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****2.8 Financial assets (Continued)****Derecognition**

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

**2.9 Impairment of assets****Impairment of financial assets**

Financial assets or group of financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such indication exists, the Company estimates the amount of impairment. A financial asset is impaired; if and only, 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 be incurred due to future events are not recognized even if the probability of loss is high.

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 assets**

On each reporting date the Company evaluates whether there is an indication of impairment of tangible and intangible assets. If there is an objective evidence of impairment, the asset's recoverable amount is estimated and if the recoverable amount is less than the carrying value of the related asset, a provision for impairment loss is made.

Discount and provision expenses of the period are detailed in Note 47.

**2.10 Derivative financial instruments**

As at the reporting date, the Company does not have any derivative financial instruments (31 December 2015: None).

**2.11 Offsetting of financial assets**

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

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

## CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## 2.12 Cash and cash equivalents

Cash and cash equivalents, which is the basis for 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 three months and readily to be used by the Company or not blocked for any other purpose (Note 14).

## 2.13 Share capital

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

Name of Shareholders	31 December 2016		31 December 2015	
	Share amount (TRY)	Share (%)	Share amount (TRY)	Share (%)
Vakıflar Bankası T.A.O.	130,142,843	48.20	54,523,802	36.35
Groupama S.A.	54,000,000	20.00	54,000,000	36.00
Halka açık hisseler	45,330,157	16.79	18,961,198	12.64
Güvenlik Hizmetleri Vakfı	27,000,000	10.00	15,000,000	10.00
Türkiye Vakıflar Bankası T.A.O. Memur ve Hiz. Emekli ve Sağlık Yardım Sandığı Vak.	13,527,000	5.01	7,515,000	5.01
<b>Paid-in Capital</b>	<b>270,000,000</b>	<b>100.00</b>	<b>150,000,000</b>	<b>100.00</b>

The Company has decided to increase its paid capital by TRY 120,000,000 on Board of Director meeting minutes dated 20 July 2016 and the application of capital increase has been accepted by Capital Market Board on 14 December 2016. The aforementioned capital increase has been registered through Trade Registry Gazette on 26 December 2016.

## Privileges to the different class of shares

None (31 December 2015: None).

## The Company's registered share capital

The registered nominal share capital of the Company is TRY 300,000,000. The share capital of the Company consists of 3,000,000,000 issued shares where each shares nominal price is TRY 0.1. The permission for ceiling amount of the share capital is valid between the years 2012 - 2016. Even if it cannot be reached to permissible written ceiling capital amount by the end of 2016 it is still mandatory to take permission from general board to let the board of directors give the decision of capital increase for either renewing previous ceiling price or setting a new ceiling amount within the permission of CMB. In the case of the not taking the authority mentioned above the Company is considered as out of the registered share capital system. As at 31 December 2016 and 2015, the paid in share capital of the Company consists of 2,700,000,000 issued shares with the total amount of TRY 270,000,000 (31 December 2015: TRY 150,000,000).

## CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## 2.14 Insurance and investments 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.

As of reporting date, the Company does not have a predetermined risk guaranteeing contract which is classified as an investment contract.

## 2.15 Insurance contracts and investment contracts with discretionary participation feature

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

- (i) Those 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) Those are contractually based on
  - (1) The performance of a specified pool of contracts or a specified type of contract;
  - (2) Realized and/or unrealized investments returns on a specified pool of assets held by the Issuer; or
  - (3) The profit or loss of the Company, Fund or other entity that issues the contract.

As at the reporting date, the Company does not have any insurance or investment contracts that contain a DPF.

## Investment contracts without DPF

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

## 2.16 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.

## CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## 2.17 Taxes

## Corporate tax

Statutory income is subject to corporate tax at a rate of 20% (2015: %20). Corporate tax rate is applied on tax base which the net income for the periods, that is 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. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. In applying the withholding tax rates on dividend payments to the non-resident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

Prepaid taxes are calculated and paid at the rates valid for the earnings of the related quarterly periods. 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. However carry forward tax losses cannot be deducted from retained earnings. Tax losses cannot be carried back to offset profits from previous periods. As at 31 December 2016 the Company has deductible tax losses amounting to TRY 203,311,427 (31 December 2015: TRY 307,476,855) (Note 21).

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. In accordance with the regulation "Statute for Restructuring of Certain Receivables" numbered 6736 which was published in Trade Registry Gazette dated 19 August 2016 and numbered 29806, the Company has been exempted from tax investigation of the relevant year's income items as a result of increase in the tax bases for the years 2011, 2012, 2013, 2014 and 2015 by considering the minimum tax bases. However, based on the article 5, paragraph 1 and section (ğ) of the regulation numbered 6736, the Company will not be able to offset the carry forward tax losses of the years for which the tax base is increased, against future taxable profits.

## Deferred income taxes

Deferred income tax assets and liabilities are recognized according to using the balance sheet method, on all taxable temporary differences arising between the tax bases and 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.

## CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## 2.17 Taxes (Continued)

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

If transactions and events are recorded in the statement of income, then the related tax effects are also recognized in the statement of income. However, if transactions and events are recorded directly in the shareholders' equity, the related tax effects are also recognized directly in the shareholders' equity (Note 21).

## 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.

## 2.18 Employee benefits

## Reserve for severance indemnity:

In accordance with existing Turkish Labour Law, the Company is required to make lump-sum termination indemnities to each employee who has completed one year of service with the Company and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. The computation of the liability is based upon the retirement pay ceiling announced by the Government. The applicable ceiling amount as at 31 December 2016 TRY 4,297.21 (31 December 2015: TRY 3,828.37) .

The fundamental assumption is that maximum ceiling for the yearly services increases in line with the inflation; therefore, the discount rate reflects the real rate after netting of the effects of inflation. The provision for termination benefits and severance payment has been calculated by using the ceiling amounting to 4,426.16 which is applicable starting from 1 January 2017, as it is adjusted yearly (1 January 2016: TRY 4,092.53)

The Company are calculated provision for employee severance indemnities using actuarial methods. The major statistical assumptions used in the calculation of the total liability as at 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Discount Rate	%3.94	4.23%
Expected Rate of Salary/Limit Increase	%6.50	6.50%
Estimated Employee Turnover Rate	%4.87	5.37%

The specified expected rate of salary/limit increase is defined according to inflation estimation of Central Bank of Turkey.

## Other employee benefits

The Company has provided for undiscounted short-term employee benefits earned during the financial period as per services in the accompanying financial statements (Note 23).



**CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**
**2.19 Provisions**

A provision is allocated 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 (Note 23).

**2.20 Revenue recognition**
**Written premiums**

Written premiums represent premiums on policies written during the year net of taxes, premiums of the cancelled policies which were produced in prior years and premiums ceded to reinsurance companies. Premiums ceded to reinsurance companies on gross premiums are booked in "premiums ceded to reinsurance companies" account of statement of income (Note 24).

**Claim recovery and salvage income and related receivables**

In the calculations related to provisions for outstanding claims accrued and identified, accrued or collected subrogation, salvage or similar income items cannot be deducted. However, accrued subrogation, salvage, and similar income items can be recognized in the assets section of the balance sheet and income statement.

In order to accrue receivable or income of subrogation, salvage; acquisition of the right of subrogation, determination of the amount certainly, and must not have been charged by the end of the period are needed. In accordance with Turkish Commercial Code, the compensation must be paid for getting the right of subrogation.

In accordance with the Circular 2010/13 dated 20 September 2010; the Company can account for income accrual for subrogation receivables up to the guarantee limit of insurance companies without any voucher for insurance companies after the completion of the claim payments made to the insuree and receipt of voucher (bank statement related to the claim payment) from third parties other than insurance companies and notice of the insurance companies or third part parties. If the amount cannot be collected from the counterparty insurance company, the Company provides provision for uncollected amounts due for six months. If the counter party is not an insurance company, the provision is provided after four months.

On the other hand, if there is an agreement with the insurance company or third parties; where there is a payment plan up to one year, or receipt of cheques, bills or similar documents, the Company is not required to provide provision for subrogation receivables that overdue six months from insurance and four months from other counterparties are under the instalment plan.

At the reporting date, in accordance with the related circular, the Company recognised TRY 10,974,009 (31 December 2015: TRY 12,930,528) net salvage and subrogation receivables in the receivables from main operations and provided TRY 235,527 (31 December 2015: TRY 282,852) allowance for salvage and subrogation receivables that are overdue as described in the related circular (Note 12).

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**
**2.20 Revenue recognition (Continued)**

When the subrogation is subject to a court case, the amount is recorded on the date of the transaction and the same amount of provision is provided on the same day.

The Company provided a provision for net subrogation receivables under legal follow up and TRY 114,671,330 (31 December 2015: TRY 84,918,845) that is presented under doubtful receivables under main operations (Note 4.2 and 12).

In order to account for salvage income expected from the sale of the assets, the claim amount should be paid to the insuree and the ownership of the related assets should be transferred to the Company. When the assets are transferred to the insuree, sold to third parties by the Company or by an intermediary; salvage income is recorded and should not be recorded as a deduction from provisions for outstanding claims and paid claims.

For the years ended 31 December 2016 and 2015, accrued salvage and subrogation income per branches is as follows:

	31 December 2016	31 December 2015
Motor own damage	9,886,678	11,899,522
Motor third party liability	838,650	423,546
Fire and Natural Disasters	206,667	389,022
Commodity	37,154	175,799
Other	4,860	42,639
<b>Total</b>	<b>10,974,009</b>	<b>12,930,528</b>

For the period 1 January - 31 December 2016 and 2015, salvage and subrogation collections are as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Motor own damage	129,989,540	100,317,574
Motor third party liability	4,143,501	5,458,477
Marine	1,213,101	1,222,291
Fire and Natural Disasters	1,202,796	1,009,161
Other	155,078	283,797
<b>Total</b>	<b>136,704,016</b>	<b>108,291,300</b>

**Commission income and expense**

As further detailed in Note 2.23, commissions paid to the agencies related to the production of the policies and the commissions received from the reinsurance firms related to the premiums ceded are recognised over the life of the contract by deferring commission income and expenses within the calculation of reserve for unearned premiums and they are recognised in "Deferred commission income" and "Deferred commission expense".

## CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****2.20 Revenue recognition (Continued)****Interest income and expense**

Interest income and expense are recognised 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.

**Dividend**

Dividend income is accounted when related dividend right arises

**2.21 Leasing transactions**

Tangible assets acquired through of finance leases are recorded in tangible assets and the obligations under finance leases arising from the lease contracts are presented under "Finance Lease Payables" account in the balance sheet. In the determination of the related asset and liability amounts, the lower of the fair value of the leased asset and the present value of leasing payments is considered. Financial costs on leasing agreements are expense in lease periods at a fixed interest rate.

If there is impairment in the value of the assets obtained through finance lease and in the expected future benefits, the leased assets are measured at net realizable value. Depreciation for assets obtained through financial lease is calculated in the same manner as respective class at tangible assets.

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

**2.22 Dividend distribution**

As of reporting date, no dividend distribution is declared by the Company.

**2.23 Reserve for unearned premiums**

Reserve for unearned premiums, effective insurance contracts premiums occur from gross amounts without any commission or other discount and based on daily premium calculations for the following period or periods. For the goods transportation insurance contracts without a specific expire date, the premiums accrued from the last three months, 50% of the remaining amount is allocated as reserve for unearned premium.

The reserve for unearned premiums during the day basis evaluation while following sections of the extended periods are being evaluated it is assumed that in general implementation, the policy starts at noon 12:00 and ends again at noon 12:00.

Unearned portion of the commissions paid to the intermediaries for written premiums and commissions received from reinsurers for the premiums ceded are recognised in short term Prepaid Expenses and Income Accruals and Deferred Income and Expense Accruals respectively in the balance sheet. They are also recognised in the operating expenses after netting off.

In accordance with the Communiqué on Technical Reserves, for the calculation of reserve for unearned premium of foreign currency indexed insurance agreements, foreign currency selling exchange rates announced by Turkish Central Bank are used, unless there is a specified exchange rate in the agreement (Note 17).

## CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****2.24 Reserve for unexpired risks**

In accordance with the Communiqué on Technical Reserves and "Announcement on Unexpired Risks Reserves" dated 11 November 2016 and numbered 2016/37, insurance companies are required to account for an unexpired risk reserve against the probability that future losses incurred from in force policies may exceed the unearned premium reserve accounted for the related policies considering expected loss ratios. Expected loss ratio is calculated by dividing the incurred losses to earned premiums.

Based on the circular numbered 2016/37, the Company calculated the gross loss ratio for Motor Third Party Liability and General Liability branches by dividing the ultimate claim amount for the last four quarterly periods including the current period based on the accident year (including indirect premiums) to the earned premium. If the Company had calculated the unexpired risks reserves for the period end 31 December 2015, pursuant to the circular no. 2016/37, the amount of unexpired risks reserves would have been lower by TRY 17,390,094 whereas the current period loss would have been higher by TRY 17,390,094 than the actual calculation as of 31 December 2015. Besides, in accordance with "Announcement on change in Regulation on Technical Provisions of Insurance, Reinsurance, Pensions Companies and the Assets are to be Invested for these provisions" no. 26606 dated 18 July 2012 published by the Undersecretary of Treasury and the "Announcements on Reserve for Unexpired Risks Calculation", and "Market Announcement on Unexpired Risks Reserves" numbered 2015/30 and 2016/1; opening provisions for outstanding claims, which is used to determine the expected loss ratio for unexpired risks reserve calculation, must be adjusted consistently with current period. In this context, the Company has recalculated incurred but not reported claim provision as of 31 December 2015 which are subject to the calculations of unexpired risks reserve as of 31 December 2016, in accordance with published by the Treasury "Regulations on Making an Amendment in the Regulation on the Provision for Outstanding Claim" respectively dated 17 March 2015 and 27 July 2015 and numbered 2015/7 and 2015/28 which is presented in Note 2.25.

The test is performed on main branch basis and in case where the expected loss ratio is higher than 95%, net unexpired risks reserve for that branch is calculated by multiplying the ratio in excess of 95% with net unearned premium reserve for the related branch and gross unexpired risks reserve for that branch is calculated by multiplying the ratio in excess of 95% with gross unearned premium reserve for the related branch. The difference between gross amount and net amount is recognised as reinsurers' share. As a result of the related test, as at the reporting date, the Company has provided reserve for unexpired risks amounting to TRY 1,778,282 (31 December 2015: TRY 48,509,456) (Note 17).

**2.25 Provision for outstanding claims**

The Company accounts for outstanding claim provision for ultimate cost of the claims incurred, but not paid in the current or previous periods or, for the estimated ultimate cost if the cost is not certain yet, and for the incurred but not reported claims. Claim provisions are accounted for based on reports of experts or initial assessments of policyholders and experts, and in the calculations related to the claim provisions, claim recoveries, salvage and similar gains are not deducted.

In accordance with the Communiqué on Technical Reserves and 2011/1 and dated 14 January 2011, starting from 1 July 2012, the Company provided provision for the files that there is uncertainty about their amount and/or which are defined as pilot case based on the average amounts of which the calculation procedure and methods defined by the Treasury and updated the provision based on the further court decision and the expert reports.

As of 31 December 2016, the difference between the provision for outstanding claim that is accrued and the amount that is calculated by using the actuarial chain ladder method, of which the content and implementation fundamentals are determined on the Legislation for Technical Provision and the "Circular on Provision for Outstanding Claim" numbered. 2014/16 and dated 5 December 2014 and is effective from 1 January 2015, is accounted for as incurred but not reported claims provision.



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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## 2.25 Provision for outstanding claims (Continued)

In accordance with "the Circular on Provision for Outstanding Claim" dated 5 December 2014 and numbered 2014/16 published by the Undersecretariat of Treasury, since 1 January 2015, the calculation of incurred but not reported claim provision for outstanding claim considering that best estimations of the Company's actuary has been adjudicated. Based on mentioned circular letter, the data selection on incurred but not reported claim provision calculations, the amendments and adjustments and the selection of the best method and interference with development factor are done by the Company's actuaries based on actuarial methods. In this related circular letter, on the calculation of incurred but not reported provision for outstanding claim amount, the Company has been given the right to choose Actuarial Chain Ladder Methods (ACLM) for each branch of Chain Ladder Method, Loss Ratio, Cape Cod, Frequency-Severity Techniques, Munich Chain Ladder Method and Bornhuetter-Ferguson. The Company has chosen Chain Ladder Method for incurred but not reported claim provisions for outstanding claims of all branches except for the general liability, air vehicle and air vehicle liability. It has been chosen Loss Ratio Method for general liability and air vehicle branches and Cape Cod as for air vehicle liability in compliance with the Company's actuary. The large claim limits and the files over the limits of these large claims on the basis of branches are determined by statistical analysis of Company's actuary; the data set used to ACLM calculations are considered without these files. The actuarial methods that has been used to calculate ACLM and large claims on the basis of branches are presented in Note 17.

The data related accrued claim recoveries, salvage and equivalent income in the balance sheet are taken into consideration in the ACLM calculations with collections. In addition, for the branches with a negative ACLM result, the incurred but not reported claim provision was calculated considering the total amount of the negative ACLM result. The ACLM calculations are performed on a gross basis and the net amounts are determined in accordance with in-forced reinsurance agreements of the Company. The gross and net incurred but not reported claim provision to be added or to be deducted for each branch and the calculation methodology as at 31 December 2016 and 2015 are explained in the Note 17.

In accordance with the Circular numbered 2011/18, paid claims, outstanding claims, claim recovery, salvage and similar incomes related to treatment expense within the scope of the law, are excluded from the previous year's statistics for the "Compulsory Transportation", "Compulsory motor third part liability", "Compulsory Motor Personal Accident" branches, in the calculations related to ACLM development triangles prepared to determine the incurred but not reported claim provision as of 31 December 2016.

In accordance with the circular of "Regulation on the Changes in the Regulation of Provision for Outstanding Claim (2014/16)" numbered 2015/7 - 2015/28 and 2016/11 issued by Undersecretariat of Treasury dated 17 March 2015, 27 July 2015 and 29 February 2016 respectively, companies are allowed to account the effects of the changes in the calculation of claim provision gradually by each trimester during the years 2015, 2016, 2017, 2018 and 2019. In this context, the Company has calculated the incurred but not reported claim provision for Compulsory Traffic branch as of 31 December 2016 by applying the gradual accounting rates of 25%, 2.5%, 5% and 10% respectively for quarterly increases in 2015 and also 7.5%, 7.5%, 10% and 10% quarterly increases as to 2016 in accordance with the related regulation. As of 31 December 2016, as a result of ACLM calculations; the Company has allocated a net provision for incurred but not reported claims amounting to TRY 209,660,454 (31 December 2015: TRY 166,414,070). If the Company did not choose the mentioned gradual accounting application, net incurred but not reported claim provision would be TRY 79,959,757 more as of 31 December 2016. (Note 17)

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## 2.25 Provision for outstanding claims (Continued)

In accordance with "The Communiqué on the Calculation of Provision for Incurred But Not Reported Claims" dated 26 December 2011 and numbered 2011/23 (the "Communiqué numbered 2011/23"), insurance companies are allowed to calculate a winning ratio over the amounts of legal cases opened against the Company which are closed in the past 5 years on a sub-branch basis and to reduce a certain portion of the outstanding claim files under legal follow-up using the calculated winning ratio as of 31 December 2016 and 2015. The Company has calculated the winning ratio on a sub-branch basis by dividing the amount of the cases closed in favour of the Company to the total amount of the legal cases of which legal processes have been completed in the past 5 years' time as of 31 December 2016 and 2015. The principal amounts have been taken into consideration and interest and other charges have been excluded from winning ratio calculations. In accordance with the Communiqué numbered 2011/23, the deduction from the outstanding claims under legal follow-up has been made using the ratio 25% for the branches with winning ratios over 25%. The Company has calculated win ratio over gross amounts and has determined reinsurance share of discount amount considering reinsurance share of related files. The net deduction amount from outstanding claim files using the winning ratios calculated on a sub-branch basis is TRY 29,301,809 (31 December 2015: TRY 21,076,127) (Note 17). The calculated and used winning ratios as at 31 December 2016 and 2015 are as follows:

Branch	31 December 2016		31 December 2015	
	Calculated Winning Ratio (%)	Used Winning Ratio (%)	Calculated Winning Ratio (%)	Used Winning Ratio (%)
Occupational responsibility	100	25	100	25
Health	84	25	10	10
Boat	65	25	66	25
Flood	57	25	57	25
Fire	46	25	28	25
Construction	43	25	41	25
MTPL - facultative	33	25	34	25
Motor vehicles – own damage	31	25	29	25
Third party financial liability	23	23	31	25
Compulsory personal accident for bus transportation	17	17	12	12
Personnel accident	17	17	9	9
Compulsory transportation financial liability	15	15	8	8
Compulsory transportation financial liability	15	15	7	7
Commodity	15	15	27	25
Electronic device	12	12	12	12
Hazardous materials liability	9	9	3	3
Employer financial liability	8	8	7	7
Machinery breakdown	5	5	5	5
Bottled gas liability	3	3	-	-

## 2.26 Equalization provision

In accordance with the Communiqué on Technical Reserves, the Insurance Companies should provide equalization provision in credit insurance and earthquake branches to equalize the fluctuations in future possible claims and for catastrophic risks. Provision is calculated as 12% of net premiums written in credit insurance and earthquake branches. In the calculation of net premiums, fees paid for un-proportional reinsurance agreements are considered as premiums ceded to the reinsurance firms.

The insurance companies are allowed to deduct claim payments and outstanding claims evidenced by expertise reports or official documents received from public institutions due to earthquake losses from the equalisation reserve, provided that no deduction has been made from current year charge to the reserve.

As of 31 December 2016 equalization provision amounting to TRY 22,917,755 (31 December 2015: TRY 18,479,283) is presented under "Other Technical Reserves" under the long term-liabilities in the accompanying financial statements (Note 17).



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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## 2.27 Related parties

For the purpose of the accompanying financial statements, shareholders, key management and members of board of directors together with their families and companies controlled by or affiliated with them, and associated companies are considered and referred to as related parties (Note 45).

## 2.28 Earnings per share

Earnings per share are determined by dividing the net income by the weighted average number of shares outstanding during the year attributable to the shareholders of the Company. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, such bonus shares issued are regarded as issued shares (Note 37).

## 2.29 Subsequent events

Post-balance sheet events that provide additional information about the Company's position at the reporting dates (adjusting events) are reflected in the financial statements. Post-balance sheet events that are not adjusting events are disclosed in the notes when material (Note 46).

## 2.30 New standards and interpretations not yet adopted

The Company applied new standards and amendments related with its operations published by International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC") which are effective date is 1 January 2016.

## a) Standards, amendments and interpretations applicable as at 31 December 2016:

- TFRS 14 'Regulatory deferral accounts', effective from annual periods beginning on or after 1 January 2016. TFRS 14, 'Regulatory deferral accounts' permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt TFRS. However, to enhance comparability with entities that already apply TFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items.
- Annual improvements 2014, effective from annual periods beginning on or after 1 January 2016. These set of amendments impacts 4 standards:
  - TFRS 5, 'Non-current assets held for sale and discontinued operations' regarding methods of disposal.
  - TFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to TFRS 1) regarding servicing contracts.
  - TAS 19, 'Employee benefits' regarding discount rates.
  - TAS 34, 'Interim financial reporting' regarding disclosure of information.
- Amendment to TFRS 11, 'Joint arrangements' on acquisition of an interest in a joint operation, effective from annual periods beginning on or after 1 January 2016. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## 2.30 New standards and interpretations not yet adopted (Continued)

## a) Standards, amendments and interpretations applicable as at 31 December 2016:(Continued)

- Amendments to TAS 16 'Property, plant and equipment', and TAS 41, 'Agriculture', regarding bearer plants, effective from annual periods beginning on or after 1 January 2016. These amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms. It has been decided that bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of TAS 16, instead of TAS 41. The produce growing on bearer plants will remain within the scope of TAS 41.
- Amendment to TAS 16, 'Property, plant and equipment' and TAS 38, 'Intangible assets', on depreciation and amortisation, effective from annual periods beginning on or after 1 January 2016. In this amendment it has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. It is also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.
- Amendments to TAS 27, 'Separate financial statements' on the equity method, effective from annual periods beginning on or after 1 January 2016. These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.
- Amendment to TFRS 10 'Consolidated financial statements' and TAS 28, 'Investments in associates and joint ventures', effective from annual periods beginning on or after 1 January 2016. These amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.
- Amendment to IAS 1, 'Presentation of financial statements' on the disclosure initiative, effective from annual periods beginning on or after 1 January 2016, these amendments are as part of the IASB initiative to improve presentation and disclosure in financial reports

## b) Standards, amendments and interpretations effective after 1 January 2017:

- Amendments to TAS 7 'Statement of cash flows' on disclosure initiative, effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.
- Amendments TAS 12 'Income Taxes', effective from annual periods beginning on or after 1 January 2017. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarify certain other aspects of accounting for deferred tax assets.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**
**2.30 New standards and interpretations not yet adopted (Continued)**
**b) Standards, amendments and interpretations effective after 1 January 2017 (Continued):**

- Amendments to TFRS 2, 'Share based payments' on clarifying how to account for certain types of share-based payment transactions, effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in TFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.
- TFRS 9 'Financial instruments', effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.
- TFRS 15 'Revenue from contracts with customers', effective from annual periods beginning on or after 1 January 2018. TFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.
- Amendment to TFRS 15, 'Revenue from contracts with customers', effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.
- TFRS 16 'Leases', effective from annual periods beginning on or after 1 January 2019, This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). TFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under TFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**
**2.30 New standards and interpretations not yet adopted (Continued)**
**b) Standards, amendments and interpretations effective after 1 January 2017 (Continued):**

- Amendments to TFRS 4, 'Insurance contracts' regarding the implementation of TFRS 9, 'Financial instruments', effective from annual periods beginning on or after 1 January 2018. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:
  - give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and
  - give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying TFRS 9 until 2021. The entities that defer the application of TFRS 9 will continue to apply the existing financial instruments standard - IAS 39.
- Amendment to IAS 40, 'Investment property' relating to transfers of investment property, effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.
- Annual improvements 2014 - 2016, effective from annual periods beginning on or after 1 January 2018. These amendments impact 3 standards:
  - TFRS 1, 'First-time adoption of TFRS', regarding the deletion of short-term exemptions for first-time adopters regarding TFRS 7, IAS 19, and TFRS 10 effective 1 January 2018.
  - TFRS 12, 'Disclosure of interests in other entities' regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017.
  - TAS 28, 'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value effective 1 January 2018.
- IFRIC 22, 'Foreign currency transactions and advance consideration', effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

**2.31 Convenience translation into English**

The effects of differences between the accounting principles as set out by the related insurance laws and accounting principles generally accepted in countries in which the financial statements are to be distributed and International Financial Reporting Standards ("IFRS") have not been quantified in the financial statements. Accordingly, the financial statements are not intended to present the financial position and results of operations and changes in financial position and cash flows in accordance with accounting principles generally accepted in such countries and IFRS.

**CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016**

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**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The notes given in this section are provided to addition/supplement the commentary on the management of insurance risk (Note 4.1) and management of financial risk (Note 4.2).

Preparation of financial statements requires the use of estimations and assumptions which may affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the balance sheet date and reported amounts of income and expenses during the financial period. Accounting estimates and assumptions are continuously evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under current circumstances. Although the estimations and assumptions are based on the best knowledge of the management for existing events and operations, they may differ from the actual results.

The estimation of the ultimate liability for technical expenses that can be incurred for the existing insurance contracts is the one of the most critical accounting estimates. Estimation of the insurance liabilities, by nature, includes the evaluation of several uncertainties (Note 17).

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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 recognised in the financial statements are described in the following notes:

Note 4.1 - Management of insurance risk  
 Note 4.2 - Management of financial risk  
 Note 6 - Tangible assets  
 Note 7 - Investment properties  
 Note 8 - Intangible assets  
 Note 9 - Investments in associates  
 Note 10 - Reinsurance assets and liabilities  
 Note 11 - Financial assets  
 Note 12 - Loans and receivables  
 Note 21 - Deferred taxes  
 Note 42 - Risks

**4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK**
**4.1 Management of insurance risk**

The risk under an insurance contract is the probability of an insured event's occurring including the uncertainty of the amount of any resulting claim. This risk is impossible to estimate because of its structure. The principal risk the Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities.

In accordance with Code of Risk Acceptance of the Company, risks are allocated in terms of their branches and potential effects. The main part of this risk management is the evaluation of all possibilities to eliminate, control or reinsure the risk by defining in all parts of the insurance operations.

According to risk types, the Company makes some analysis to decide about which branches it can operate in which city or region by using the analysis of district-city actuarial methods.

These analyses are updated about the new information received and so that policies will change about the priorities of the operations.

With the risk policies developed by these methods, it is aimed to increase the Company's profitability on the basis of branches, cities, and regions.

Risks are divided into branches and sizes in terms of the Company's Risk Acceptance Regulations. Acceptance or rejection according to the result of risk examination's evaluations is decided by the Company's Risk Engineers, Related Branch Managers, and Vice Technical Manager after evaluation.

The Company determines annual "risk acceptance policies" regarding the products of the Company and revise these policies during the year, if necessary. Based on the mentioned risk acceptance policies, the maximum and minimum limits for risk analysis during the period from order process to the issuance of the policy and the risks which will be excluded are determined for each product. Furthermore, the Company, by considering its financial structure, obtains coverage for the significant

**CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016**

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**4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)**
**4.1 Management of insurance risk (Continued)**

The most common method to manage insurance risk is to arrange reinsurance agreements. But the transfer of insurance risk through reinsurance agreements is not eliminating the liability of the Company as the first one made the insurance. If reinsurance company does not pay the loss, Company's liability towards the policyholder continues. The company evaluates the reliability of reinsurance company by analyzing the financial condition before annual contract.

The Company not only creates new policies within the context of risk evaluation as mentioned above, also transfers the risks to reinsurer companies with reinsurance agreements. The Company transfers the risks with special acceptance of excess loss insurance and quota surplus reinsurance within the context of the agreements.

Reinsurance agreements contains claim excess (quota surplus reinsurance, excess loss insurance) catastrophic guarantee (provision). In addition, at the jobs, excess of special acceptance capacity which are at different levels for branches, arbitrary reinsurance are done by related technical departments.

Generally, the Company has agreements of fire and natural disasters, transportation, accident, transportation vehicles (land), transportation vehicles (air), transportation vehicles (sea), general losses, transportation vehicles (land) liability, transportation vehicles (sea) liability, general liability, financial losses, legal protection and health branches. Insurance guarantee amounts are also explained in Note 17.

Reinsurance agreements are the agreements signed, paid by the company and are also carried out by the both The Company and Reinsurance Company. These agreements have the sufficient conditions to be able to classify as insurance agreements which are used in purpose of losses result from one or more insurance agreements.

As of 31 December 2016, Swiss Reinsurance ("Swiss Re") is the leader reinsurer of the Company in branches such as fire, assorted accident, transportation and machinery breakings with quota-shared, excess loss-shared and catastrophe-cover agreements. Other following reinsurers are Milli Re, QBE; Hannover Re.

As of 31 December 2016, the Company have annual surplus agreements in fire, machinery breakdown and accident branches, and annual quota-share agreement in motor hull and MTPL branches.

The last credit-scaling notes as follows in the table;

Reinsurer	Standard & Poors			AM Best		
	Scale	Outlook	Date	Scale	Outlook	Date
Everest RE	A+	Stationary	13 March 2009	A+	Stationary	9 September 2015
Milli RE	AA+	Stationary	5 April 2013	B+	Stationary	24 June 2016
Munich RE	AA-	Stationary	23 March 2009	A+	Stationary	19 October 2016
Swiss RE	AA-	Stationary	29 December 2011	A+	Stationary	11 December 2015
QBE	A+	Stationary	21 May 2016	A	Stationary	10 Mart 2016
Hannover RE	AA-	Stationary	21 May 2010	A+	Stationary	30 September 2016

The company has annual excess treaty in fire, machinery breakdown, diverse accident, and branches, as for quota share agreements for motor insurance and compulsory traffic insurance branches as of the date 31 December 2016.



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## 4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

## 4.2 Management of insurance risk (Continued)

## Premiums transferred to the Social Security Institution

The collection and settlement of expenses with respect to the medical care related services provided to the injured people due to the traffic accidents have been regulated by Article 98 of Road Traffic Act numbered 2918 altered by Article 59 of "The Law on Restructuring of Some Receivables and Changes in Social Security and General Insurance Law and Other Laws and Law Decrees" (the "Law") numbered 6111 published in the Official Gazette dated 25 February 2011. In this context, all the traffic accident related medical care services provided by any public or private health institution will be covered by Social Security Institution ("SSI") regardless of social security status of the injured. Besides, in accordance with the temporary Article 1 of the Law, all of the expenses with respect to the traffic accident related medical care services provided before enforcement of the Law, will also be covered by SSI.

The liability of the insurance companies with respect to the service costs to be incurred in the context of abovementioned articles has been determined in accordance with the provisions of "The Regulation on the Principles of Collection of the Costs of the Health Services Provided due to the Traffic Accidents" dated 27 August 2011 ("The Regulation"), "The Communiqué on the Principles of the Implementation of the Regulation on the Principles of Collection of the Costs of the Health Services Provided due to the Traffic Accidents" dated 15 September 2011 and numbered 2011/17 (the "Communiqué numbered 2011/17") and "The Communiqué on the Accounting of Payments to Social Security Institution ("SSI") with respect to Treatment Expenses and Introduction of New Account Codes to Insurance Account Chart" dated 17 October 2011 (the "Communiqué numbered 2011/18"), the regulation ("2012/3 numbered notice) making changes in "The Regulation on the Principles of Collection of the Costs of the Health Services Provided due to the Traffic Accidents" dated 16 March 2012 and numbered 2012/3 and the communicate about changes related "the Principles of Collection of the Costs of the Health Services Provided due to the Traffic Accidents" dated 30 April 2012 and numbered 2012/6.(the "Communiqué numbered 2012/6"). Within this framework, the Company is required to cede a certain amount of premiums to be determined in accordance with the Regulation and the Communiqué numbered 2011/17 to SSI in relation to policies issued as of 25 February 2011, the notice numbered 2012/3 and the communiqué numbered 2012/6 in "Compulsory Transportation", "Compulsory Traffic" and "Compulsory Motor Personal Accident" branches regarding the expenses with respect to the traffic accident related medical care services provided after enforcement of the Law. Based on the aforementioned regulations, the Company has calculated the amount of the premiums to be ceded to SSI in 1 January - 31 December 2016 account period as TRY 24,454,974 under the account of "premiums transferred to SSI" during the accounting period 1 January - 31 December 2016 (1 January - 31 December 2015: TRY 22,365,923).

## 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

## CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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

## 4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

## 4.2 Management of financial risk (Continued)

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors monitors the effectiveness of the risk management system through the internal audit department.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

## Credit risk

Credit risk is basically defined as the possibility that counterparty will fail to meet its obligations in accordance under agreed terms of a contract. The balance sheet items that the Company is exposed to credit risk are as follows:

- banks
- other cash and cash equivalents (excluding cash on hand)
- available for sale financial assets
- premium receivables from policyholders
- receivables from intermediaries (agencies)
- receivables from reinsurance companies related to commissions and claims paid
- reinsurance shares of insurance liability
- other receivable

Financial assets of the Company, subject to credit risk are mainly demand and time deposits held at banks in Turkey and other financial intermediaries, and credit card receivables. All these receivables are assumed that they do not have a high credit risk.

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

	31 December 2016	31 December 2015
Cash equivalents (Note 14)	665,209,718	500,854,321
Reinsurer's share in provision for outstanding claims (Note 10)	467,420,641	403,151,064
Receivables from operating activities (Note 12)	395,166,808	403,038,868
Prepaid taxes and funds (Note 12)	7,209,385	5,263,228
Other receivables (Note 12 and 47)	3,874,792	4,390,416
Advances given to personnel	58,822	156,009
Available-for-sale financial assets (Note 11)	-	182,095
<b>Total</b>	<b>1,538,940,166</b>	<b>1,317,036,001</b>

Details of guarantees and securities taken for the receivables are as follows:

	31 December 2016	31 December 2015
Notes received	57,692,246	58,742,906
Letter of guarantee	34,005,577	32,516,082
Cash guarantees	3,009,973	2,193,549
Other guarantee and commitments	1,461,430	1,193,430
Treasury and government bonds taken as guarantee	325,948	327,006
<b>Total</b>	<b>96,495,174</b>	<b>94,972,973</b>

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## 4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

## 4.2 Management of financial risk (Continued)

As at 31 December 2016 and 2015, the aging of the receivables from operating activities and related provisions are as follows:

	31 December 2016		31 December 2015	
	Gross amount	Provision	Gross amount	Provision
Undue receivables	366,328,421	-	362,271,674	-
Past due 0-30 days	2,479,774	-	4,850,625	-
Past due 31-60 days	1,810,120	-	3,116,385	-
Past due 61-180 days	3,963,205	-	6,011,232	-
Past due 181-365 days	3,793,130	(1,500,264)	3,222,055	(424,003)
More than one year receivables	9,692,909	(6,327,200)	8,641,083	(1,788,188)
Doubtful receivables under legal follow-up	20,614,250	(16,426,019)	18,182,860	(13,692,531)
	<b>408,681,809</b>	<b>(24,253,483)</b>	<b>406,295,914</b>	<b>(15,904,722)</b>
Subrogation and salvage receivables	10,974,009	(235,527)	12,930,528	(282,852)
Doubtful receivables from main operations				
Subrogation under legal follow up (Note 12)	114,671,330	(114,671,330)	84,918,845	(84,918,845)
<b>Total</b>	<b>534,327,148</b>	<b>(139,160,340)</b>	<b>504,145,287</b>	<b>(101,106,419)</b>

The movement in the allowance for impairment in respect of premium receivables during the period is as follows:

	2016	2015
Beginning of the period - January 1	(101,106,419)	(59,339,746)
Change in provision for recovery receivables under legal follow-up (Note 47)	(29,752,485)	(40,284,239)
Change in provision for premium receivables	(2,887,280)	(3,419,893)
Doubtful receivables under legal follow-up		
Collections in the period (Note 47)	153,792	740,920
Change in provision from premium receivables under legal follow-up (Note 47)	(5,615,273)	1,325,909
Change in provision from recovery receivables under legal follow-up (Note 4.2)	47,325	(129,370)
<b>Period ending - December 31</b>	<b>(139,160,340)</b>	<b>(101,106,419)</b>

## Liquidity risk

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

## Managing Liquidity Risk

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

## CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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## 4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

## 4.2 Management of financial risk (Continued)

Monetary asset and liabilities' remaining periods to maturity:

31 December 2016	Book value	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years
<b>Assets</b>					
Cash and cash equivalents	665,210,904	239,065,522	426,145,382	-	-
Receivables from operating activities	395,166,808	79,997,766	108,056,788	201,143,897	5,968,357
Other receivables	3,874,792	3,708,745	-	-	166,047
<b>Total monetary assets</b>	<b>1,064,252,504</b>	<b>322,772,033</b>	<b>534,202,170</b>	<b>201,143,897</b>	<b>6,134,404</b>
<b>Liabilities</b>					
Financial liabilities	1,658,420	230,754	469,282	958,384	-
Payables from operating activities	176,526,366	20,818,917	112,225,706	43,481,743	-
Due to related parties	12,105	12,105	-	-	-
Other payables	23,390,533	6,160,343	14,179,493	-	3,050,697
Provision for outstanding claims, net	604,851,235	90,727,685	314,522,642	133,067,272	66,533,636
Provision for tax and other similar liabilities	22,672,388	21,071,396	1,600,992	-	-
<b>Total monetary liabilities</b>	<b>829,111,047</b>	<b>139,021,200</b>	<b>442,998,115</b>	<b>177,507,399</b>	<b>69,584,333</b>
<b>31 December 2015</b>	<b>Book value</b>	<b>Up to 1 month</b>	<b>1 to 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>
<b>Assets</b>					
Cash and cash equivalents	500,867,514	104,390,166	396,477,348	-	-
Financial assets and financial assets risks belongs to insurers	182,095	182,095	-	-	-
Receivables from operating activities	403,038,868	139,052,030	71,784,984	183,735,312	8,466,542
Other receivables	4,390,416	4,239,350	-	-	151,066
<b>Total monetary assets</b>	<b>908,478,893</b>	<b>247,863,641</b>	<b>468,262,332</b>	<b>183,735,312</b>	<b>8,617,608</b>
<b>Liabilities</b>					
Financial liabilities	2,096,959	146,983	298,347	1,373,434	278,195
Payables from operating activities	181,543,075	20,528,122	113,961,441	47,053,512	-
Due to related parties	15,066	15,066	-	-	-
Other payables	23,620,732	8,760,156	12,434,126	-	2,426,450
Provision for outstanding claims, net	518,592,525	77,788,879	269,668,112	114,090,356	57,045,178
Provision for tax and other similar liabilities	18,524,350	17,146,105	1,378,245	-	-
<b>Total monetary liabilities</b>	<b>744,392,707</b>	<b>124,385,311</b>	<b>397,740,271</b>	<b>162,517,302</b>	<b>59,749,823</b>

## Market risk

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

## Currency risk

The Company is exposed to currency risk through 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 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 income.

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## 4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

## 4.2 Management of financial risk (Continued)

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

31 December 2016	US Dollar	Euro	Other currencies	Total
<b>Assets:</b>				
Cash and cash equivalents	18,828,222	5,338,278	559,478	24,725,978
Receivables from operating activities	166,356,859	25,266,418	451,946	192,075,223
<b>Total foreign currency assets</b>	<b>185,185,081</b>	<b>30,604,696</b>	<b>1,011,424</b>	<b>216,801,201</b>
<b>Liabilities:</b>				
Payables arising from operating activities	(108,858,493)	(12,301,109)	(219,101)	(121,378,703)
Deposits and collaterals received	(820,909)	(219,611)	-	(1,040,520)
<b>Total foreign currency liabilities</b>	<b>(109,679,402)</b>	<b>(12,520,720)</b>	<b>(219,101)</b>	<b>(122,419,223)</b>
<b>Balance sheet position</b>	<b>75,505,679</b>	<b>18,083,976</b>	<b>792,323</b>	<b>94,381,978</b>
31 December 2015	US Dollar	Euro	Other currencies	Total
<b>Assets:</b>				
Cash and cash equivalents	6,764,374	4,660,477	191,685	11,616,536
Receivables from operating activities	179,814,249	29,055,875	356,398	209,226,522
<b>Total foreign currency assets</b>	<b>186,578,623</b>	<b>33,716,352</b>	<b>548,083</b>	<b>220,843,058</b>
<b>Liabilities:</b>				
Payables arising from operating activities	(93,617,193)	(15,666,966)	(59,172)	(109,343,331)
Deposits and collaterals received	(798,041)	(189,114)	-	(987,155)
<b>Total foreign currency liabilities</b>	<b>(94,415,234)</b>	<b>(15,856,080)</b>	<b>(59,172)</b>	<b>(110,330,486)</b>
<b>Balance sheet position</b>	<b>92,163,389</b>	<b>17,860,272</b>	<b>488,911</b>	<b>110,512,572</b>

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

Foreign currency rates used for the translation of foreign currency denominated monetary assets and liabilities as at 31 December 2016 and 2015 are as follows:

	USD	Euro
31 December 2016	3.5192	3.7099
31 December 2015	2.9076	3.1776

## Exposure to currency risk

10 percent devaluation of the TRY against the following currencies as at 31 December 2016 and 2015 would have increased 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. A 10 percent appreciation of the TRY against the following currencies' effect will be in opposite direction.

	1 January - 31 December 2016		1 January - 31 December 2015	
	Profit or loss	Equity	Profit or loss	Equity
US Dollar	7,550,568	7,550,568	640,063	640,063
Euro	1,808,398	1,808,398	442,980	442,980
Other currencies	79,232	79,232	43,526	43,526
<b>Total, net</b>	<b>9,438,198</b>	<b>9,438,198</b>	<b>1,126,569</b>	<b>1,126,569</b>

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## 4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

## 4.2 Management of financial 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 re-pricing bands.

As at 31 December 2016 and 2015; the interest rate profile of the Company's interest earning financial assets and interest bearing financial liabilities are detailed below:

	31 December 2016	31 December 2015
<b>Financial assets with fixed interest rate:</b>		
Deposits in banks (Note 14)	545,474,173	403,215,083
<b>Financial liabilities with fixed interest rate:</b>		
Financial lease payables (Note 20)	1,658,420	2,096,959

## Interest rate sensitivity of the financial instruments

The Company does not have any interest sensitive financial instrument as of 31 December 2016.

## Fair value information

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

Available-for-sale financial assets are measured at their fair values based on their quoted prices in the accompanying financial statement. To measure the fair values of the debt securities which has no quoted prices in the financial markets, a valuation technique is applied, which all inputs are based on the observable information.

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

## Classification of fair value measurement

"IFRS 7 - Financial Instruments: Disclosures requires the measurements of fair value of financial instruments to be classified in a hierarchy that reflects the significance of the valuation inputs used. This classification priorities observable data, using market data obtained from independent sources, in preference to unobservable data that relies, for example on the use of predictions and assumptions about market prices by the Company. This sort of categorization generally results in the classifications below.



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## 4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

## 4.2 Management of financial risk (Continued)

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: Inputs for the asset or liability that is not based on observable market data (unobservable inputs).

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

Classification of financial assets and liabilities' fair values is as follows:

31 December 2016	Level 1	Level 2	Level 3	Total
<b>Financial Assets:</b>				
Associates (Note 9)	31,960,158	-	323,706,588	355,666,746
Properties held for use (Note 6)	-	176,095,000	-	176,095,000
Investment Property (Note 7)	-	15,205,000	-	15,205,000
<b>Total Financial Assets</b>	<b>31,960,158</b>	<b>191,300,000</b>	<b>323,706,588</b>	<b>546,966,746</b>
31 December 2015	Level 1	Level 2	Level 3	Total
<b>Financial Assets:</b>				
Available-for-sale financial assets (Note 11)	182,095	-	-	182,095
Associates (Note 9)	21,996,269	-	284,474,148	306,470,417
Properties held for use (Note 6)	-	164,680,000	-	164,680,000
Investment Property (Note 7)	-	14,924,000	-	14,924,000
<b>Total Financial Assets</b>	<b>22,178,364</b>	<b>179,604,000</b>	<b>284,474,148</b>	<b>486,256,512</b>

The reconciliation of the balance at the beginning and balance at the ending for Level 3 in terms of fair value measurements are presented in the table below.

	2016	2015
<b>Beginning - January 1</b>	<b>284,474,148</b>	<b>226,230,278</b>
<i>Total gains and loss</i>		
- Recognised in other comprehensive income	38,522,139	58,243,870
- Purchases	710,301	-
<b>Period ending - December 31</b>	<b>323,706,588</b>	<b>284,474,148</b>

Fair values of affiliates and subsidiaries are determined in accordance with discounted cash flow and comparative value method in valuation reports prepared by independent valuation companies.

*Sensitivity of fair value of equity shares*

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

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## 4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

## 4.2 Management of financial risk (Continued)

Borsa Istanbul (the "BIST") is traded in the financial statements term securities shown between the market value and the measured stocks, indexes of possible fluctuations due to fair value changes in (all other variables held constant with) the Company's equity the effect on (excluding tax effects) is as follows:

	Change in Index	31 December 2016 Equity	31 December 2015 Equity
IMKB - 100	%10	2,635,925	2,217,837

**Capital management**

The Company's major capital management policies include the following:

- To comply with the insurance capital requirements required by Treasury
- To safeguard the Company's ability to continue as going concern
- To provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk assumed

In accordance with the "Communiqué on Measurement and Assessment of Capital Adequacy of Insurance, Reinsurance and Individual Pension Companies" dated 19 January 2008 and numbered 26761 issued by Treasury; as of 31 December 2016, the Company measured its minimum capital requirement as TRY 357,390,026 (31 December 2015: TRY 359,042,503). As of 31 December 2016, the Company's total equity calculated in accordance with the related communiqué is equal to TRY 445,281,313 which is more than the minimum capital requirement by TRY 87,891,288 (31 December 2015: TRY 45,265,808 less).

The Company has taken following actions to increase profitability and sustain a structure;

- The Company has taken a number of measures in the Motor TPL and Motor Own Damage lines, which account for a significant part of the portfolio. 153 agents whose portfolio incurred loss in 2015 were terminated. Similar measures have taken for 2016 and accordingly, 327 agents were terminated as of 31 December 2016. Moreover, insurees, having high loss ratio, were taken out of portfolio by pricing according to their risk group instead of market conditions.
- Actuarial tariff studies are performed in motor and traffic insurances in order determine the premiums based on the tariff structure influenced by different risk factors and interactions. Tariffs are revised periodically according to the technical results of the Company and the analysis results based on the beginning year of the policies tend to improve for both insurance branches.
- In order to set an individual profitable portfolio, the Company operates by adopting adequate price and accurate conditions policy.
- The Company has adopted the policy of increasing the treaty capacity in Fire and Construction branches to constitute a profitable portfolio

## CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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

## 4. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

## 4.2 Management of financial risk (Continued)

Information about earnings from financial assets is indicated in note 26. The details of financial expenses are as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Investment income transferred to non-life technical section	(40,918,811)	(52,327,372)
Foreign exchange losses	(33,211,246)	(23,949,663)
Amortization expenses	(7,057,503)	(6,369,916)
Investment management expenses - including interest	(3,771,294)	(3,540,315)
Other investment expenses	(4,688,160)	(5,323,170)
<b>Financial expenses</b>	<b>(89,647,014)</b>	<b>(91,510,436)</b>

The details of financial gains and losses recognized in equity are as follows:

Changes in fair value of investments at associates (Note 9 and 15)	48,448,582	56,048,948
Changes in fair value of available-for-sale financial assets (Note 15)	-	16,142
<b>Total</b>	<b>48,448,582</b>	<b>56,065,090</b>

## 5. SEGMENT REPORTING

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

## Business segments

Information about the Company's segment reporting is explained in this section within the context of TFRS 8 - Business Segments Standards.

Not only reports given to upper level management to give a decision about reporting sub-operating segments, also numerical sub limits within the context of TFRS 8 – Business Segments Standards are taken into consideration and premium production, and technical profitability are evaluated as a different business segments.

## Fire Insurance

With this insurance; damages on the insured goods as a result of fire, lightning, blast, fume, steam, and fever are insured up to the insurance coverage.

## CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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

## 5. SEGMENT REPORTING (Continued)

## Other Accident Insurance

This section contains insurance in branches Motor own damage, personal accident insurance and broken glass. The company provide physical damage thereby danger and invasion by motor own damage policyholder motor can be used in road, from non-motorized vehicles , and the trailer or caravan with backhoe, advantage arising from the tractor wheel; can be used in highway motor vehicle, struggle with non-motorized transport, on the move or pause position involuntarily policyholder or user of the car ,strike of an object which was moving or the car striking to object tipping, falling, rolling, such as accidents, or movements with bad faith by third party, vehicle's combustion, be stealing of car or attempt to steal.

## Motor Vehicles (Land) Liability Insurance

The Company described the policy that if the mentioned motor vehicle, during the operation, will cause a person's death or injury or damage a thing, in accordance with No. 2918 Road Traffic Act, the operator's legal responsibility will be provided up to insurance limits.

The damages occurred by trailers, or semi-trailers (including light trailers) will be covered by the trailer's insurance policy. Trailers to carry people will be covered if there is an additional liability insurance, specified the special conditions

In order to prevent or minimize the damage after an accident, the Insuree's reasonable and necessary expenses will be covered by the Company. This insurance is the operator (the Insuree) to ensure the defence against unjustified claims.

## Health Insurance

Health insurance; during the period of insurance, provides the treatment costs if the insuree got illness, accident, if also there is, daily paid claims up to written amounts in the insurance policy. The policy's geographical borders are mentioned in the policy.

## Geographical Reporting

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

## GÜNEŞ SİGORTA ANONİM ŞİRKETİ

### CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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

#### 5. SEGMENT REPORTING (Continued)

As of 1 January - 31 December 2016 segment results are as follows:

	Fire	Various Accident	Motor Third Party Liability	Health	Other	Undistributed	Total
<b>Technical Income</b>	<b>75,367,165</b>	<b>289,509,074</b>	<b>277,029,288</b>	<b>121,127,188</b>	<b>37,752,587</b>	-	<b>800,785,302</b>
1 - Earned premiums (net)	67,218,865	282,991,353	259,319,714	121,127,188	39,231,375	-	769,888,495
1.1 - Written premiums (net)	73,408,610	280,458,509	238,544,932	118,609,831	39,787,477	-	750,809,359
1.2 - Change in reserve for unearned premiums	(6,189,745)	2,905,099	(26,591,768)	2,517,357	(292,981)	-	(27,652,038)
1.3 - Change in reserve for unexpired risks	-	(372,255)	47,366,550	-	(263,121)	-	46,731,174
2 - Other technical incomes and accrued salvage and subrogation receivables (net)	8,148,300	6,517,721	17,709,574	-	(1,478,788)	-	30,896,807
<b>Technical Expense</b>	<b>41,391,225</b>	<b>266,353,852</b>	<b>321,512,592</b>	<b>107,252,601</b>	<b>(2,135,872)</b>	-	<b>734,374,398</b>
1 - Damages occurred (net off reinsurers' share)	26,010,946	208,745,836	281,649,532	86,858,871	10,521,964	-	613,787,149
1.1 - Claims paid (net off reinsurers' share)	21,976,401	219,396,483	194,410,971	79,747,887	11,996,697	-	527,528,439
1.2 - Change in provision for outstanding claims (net off reinsurers' share and deferred part) (+/-)	4,034,545	(10,650,647)	87,238,561	7,110,984	(1,474,733)	-	86,258,710
2 - Change in other technical provisions	3,110,893	974,533	-	-	553,045	-	4,438,471
3 - Other technical expenses (including paid and received commissions)	12,269,386	56,633,483	39,863,060	20,393,730	(13,010,881)	-	116,148,778
<b>Profit/(loss)</b>							<b>66,410,904</b>
Investment income							85,413,610
General expenses							(89,408,158)
Other operating expenses							(113,178,804)
<b>Net period profit</b>							<b>(50,762,448)</b>

## GÜNEŞ SİGORTA ANONİM ŞİRKETİ

### CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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

#### 5. SEGMENT REPORTING (Continued)

As of 1 January - 31 December 2015, segment results are as follows:

	Fire	Various Accident	Motor Third Party Liability	Health	Other	Undistributed	Total
<b>Technical Income</b>	<b>64,174,159</b>	<b>298,245,696</b>	<b>202,214,534</b>	<b>112,471,839</b>	<b>33,819,315</b>	-	<b>710,925,543</b>
1 - Earned premiums (net)	59,828,284	277,311,086	183,398,301	112,471,507	31,102,257	-	664,111,435
1.1 - Written premiums (net)	62,291,208	292,151,602	222,276,909	115,613,751	31,700,601	-	724,034,071
1.2 - Change in reserve for unearned premiums	(2,462,924)	(13,697,610)	(4,099,241)	(3,142,244)	(598,344)	-	(24,000,363)
1.3 - Change in reserve for unexpired risks	-	(1,142,906)	(34,779,367)	-	-	-	(35,922,273)
2 - Other technical incomes and accrued salvage and subrogation receivables (net)	4,345,875	20,934,610	18,816,233	332	2,717,058	-	46,814,108
<b>Technical Expense</b>	<b>32,446,633</b>	<b>291,200,425</b>	<b>386,012,771</b>	<b>89,337,282</b>	<b>18,651,688</b>	-	<b>817,648,799</b>
1 - Damages occurred (net off reinsurers' share)	21,648,998	235,619,975	345,047,531	71,075,273	15,359,688	-	688,751,465
1.1 - Claims paid (net off reinsurers' share)	25,229,279	209,013,192	199,718,877	74,471,110	12,746,389	-	521,178,847
1.2 - Change in provision for outstanding claims (net off reinsurers' share and deferred part) (+/-)	(3,580,281)	26,606,783	145,328,654	(3,395,837)	2,613,299	-	167,572,618
2 - Change in other technical provisions	2,490,554	999,349	-	-	334,457	-	3,824,360
3 - Other technical expenses (including paid and received commissions)	8,307,081	54,581,101	40,965,240	18,262,009	2,957,543	-	125,072,974
<b>Profit/(loss)</b>							<b>(106,723,256)</b>
Investment income							102,666,440
General expenses							(88,490,384)
Other operating expenses							(70,021,680)
<b>Net period profit</b>							<b>(162,568,880)</b>



## GÜNEŞ SİGORTA ANONİM ŞİRKETİ

### CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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

#### 6. TANGIBLE ASSETS

Movements of tangible assets in the period from 1 January to 31 December 2016 and 2015 are presented below:

	1 January 2016	Additions	Disposals	Valuation Increase	31 December 2016
<b>Cost:</b>					
Real estate property held for use	164,680,000	-	-	11,415,000	176,095,000
Machinery and equipment	9,532,061	1,386,884	(3,619,310)	-	7,299,635
Furniture and fixtures	5,731,758	47,595	(2,557)	-	5,776,796
Motor vehicles	586,107	8,560	(176,223)	-	418,444
Other tangibles (include leasehold improvements)	1,528,427	10,443	(3,235)	-	1,535,635
Leased assets	6,092,141	2,748,486	-	-	8,840,627
	<b>188,150,494</b>	<b>4,201,968</b>	<b>(3,801,325)</b>	<b>11,415,000</b>	<b>199,966,137</b>
<b>Accumulated depreciation:</b>					
Real estate property held for use	-	(1,388,293)	-	1,388,293	-
Machinery and equipment	(7,887,503)	(702,004)	3,619,088	-	(4,970,419)
Furniture and fixtures	(5,363,108)	(149,514)	2,557	-	(5,510,065)
Motor vehicles	(476,922)	(62,024)	176,223	-	(362,723)
Other tangibles (include leasehold improvements)	(1,434,706)	(41,027)	3,235	-	(1,472,498)
Leased assets	(2,778,686)	(1,421,378)	-	-	(4,200,064)
	<b>(17,940,925)</b>	<b>(3,764,240)</b>	<b>3,801,103</b>	<b>1,388,293</b>	<b>(16,515,769)</b>
<b>Net book value</b>	<b>170,209,569</b>				<b>183,450,368</b>

	1 January 2015	Additions	Disposals	Valuation Increase	31 December 2015
<b>Cost:</b>					
Real estate property held for use	134,455,000	-	-	30,225,000	164,680,000
Machinery and equipment	9,359,000	505,274	(332,213)	-	9,532,061
Furniture and fixtures	5,689,290	42,468	-	-	5,731,758
Motor vehicles	567,107	19,000	-	-	586,107
Other tangibles (include leasehold improvements)	1,525,600	2,827	-	-	1,528,427
Leased assets	2,810,979	3,281,162	-	-	6,092,141
	<b>154,406,976</b>	<b>3,850,731</b>	<b>(332,213)</b>	<b>30,225,000</b>	<b>188,150,494</b>
<b>Accumulated depreciation:</b>					
Real estate property held for use	-	(1,221,125)	-	1,221,125	-
Machinery and equipment	(7,559,155)	(660,510)	332,162	-	(7,887,503)
Furniture and fixtures	(5,125,476)	(237,632)	-	-	(5,363,108)
Motor vehicles	(405,743)	(71,179)	-	-	(476,922)
Other tangibles (include leasehold improvements)	(1,360,384)	(74,322)	-	-	(1,434,706)
Leased assets	(1,929,605)	(849,081)	-	-	(2,778,686)
	<b>(16,380,363)</b>	<b>(3,113,849)</b>	<b>332,162</b>	<b>1,221,125</b>	<b>(17,940,925)</b>
<b>Net book value</b>	<b>138,026,613</b>				<b>170,209,569</b>

## GÜNEŞ SİGORTA ANONİM ŞİRKETİ

### CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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

#### 6. TANGIBLE ASSETS (Continued)

The Company's properties held for use is recognised at fair value. As of 31 December 2016, the properties are carried at their fair values identified by the peer comparison method as stated in the appraisal reports prepared by CMB certified independent expertise companies:

	Appraisal Company	31 December 2016	31 December 2015
Güneş Plaza	Avrupa Gayrimenkul Değ. ve Dan. A.Ş.	165,000,000	155,000,000
Ankara Building	Avrupa Gayrimenkul Değ. ve Dan. A.Ş.	3,600,000	3,600,000
Kabataş Building	Avrupa Gayrimenkul Değ. ve Dan. A.Ş.	3,500,000	2,370,000
Antalya Building	Avrupa Gayrimenkul Değ. ve Dan. A.Ş.	1,620,000	1,540,000
Trabzon Building	Avrupa Gayrimenkul Değ. ve Dan. A.Ş.	950,000	900,000
Adana Building	Avrupa Gayrimenkul Değ. ve Dan. A.Ş.	895,000	795,000
Erzurum Building	Avrupa Gayrimenkul Değ. ve Dan. A.Ş.	255,000	225,000
Samsun Building	Avrupa Gayrimenkul Değ. ve Dan. A.Ş.	275,000	250,000
<b>Total</b>		<b>176,095,000</b>	<b>164,680,000</b>

Revaluation increases arising from valuation of land and buildings, net of deferred tax effects, are credited to "Other Profit Reserves" under shareholders' equity. Revaluation decreases arising from valuation of land and buildings are charged against "Other Profit Reserves" for the corresponding asset under shareholders' equity. Fair value decreases per revaluation fund recorded in "Other Profit Reserves" are charged to the income statement.

The movements of the revaluation increases for the land and buildings accounted for using revaluation model is below:

	2016	2015
Beginning - January 1	115,650,215	86,712,461
Increase in value arising from revaluation	12,803,293	31,446,125
Depreciation differences recognised in retained earnings net	(445,075)	(255,818)
Increase in value arising from revaluation		
Deferred tax effect (Note 21)	(1,217,875)	(2,157,589)
Other	-	(94,964)
<b>Period ending - 31 December (Note 15)</b>	<b>126,790,558</b>	<b>115,650,215</b>

Cost and accumulated depreciations of the buildings as at 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Cost	55,928,944	55,928,944
Accumulated depreciation	(15,380,579)	(14,437,361)
<b>Net book value</b>	<b>40,548,365</b>	<b>41,491,583</b>

## GÜNEŞ SİGORTA ANONİM ŞİRKETİ

### CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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

#### 6. TANGIBLE ASSETS (Continued)

As of 31 December 2016 and 2015, reconciliation between net book value, calculated by costs of properties held for own use and revalued amounts are as follows:

	31 December 2016	31 December 2015
Revalued amount	176,095,000	164,680,000
Accumulated depreciation	-	-
<b>Revalued amount (net of accumulated depreciation)</b>	<b>176,095,000</b>	<b>164,680,000</b>
Net book value, calculated over cost amount	(40,548,365)	(41,491,583)
Calculated impairment loss	-	-
<b>Revaluation fund before tax</b>	<b>135,546,635</b>	<b>123,188,417</b>
Calculated deferred tax liability (Note 21)	(8,756,077)	(7,538,202)
<b>Revaluation fund, (net) (Note 15)</b>	<b>126,790,558</b>	<b>115,650,215</b>

There is no commitment on the properties held for use (31 December 2015: None).

#### 7. INVESTMENT PROPERTY

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

	1 January 2016	Additions	Disposals	Valuation Increase	31 December 2016
Investment properties	14,924,000	64,000	(1,674,000)	1,891,000	15,205,000
	<b>14,924,000</b>	<b>64,000</b>	<b>(1,674,000)</b>	<b>1,891,000</b>	<b>15,205,000</b>
	1 January 2015	Additions	Disposals	Valuation Increase	31 December 2015
Investment properties	92,035,000	132,000	(78,241,072)	998,072	14,924,000
	<b>92,035,000</b>	<b>132,000</b>	<b>(78,241,072)</b>	<b>998,072</b>	<b>14,924,000</b>

The lands and buildings for getting rental income, or holding for appreciation or for both instead of using in the operations of the Company, administrative purposes or sailing in the ordinary course of business, are classified as investment properties.

As of 31 December 2016 and 2015, investment properties are reflected into the financial statements at their fair values obtained from appraisal reports prepared by independent professional valuation experts.

	31 December 2016	31 December 2015
İzmir Konak Land (*)	9,300,000	7,950,000
Tekirdağ Farm (*)	4,100,000	3,715,000
Other land and buildings (*)	1,805,000	3,259,000
<b>Total</b>	<b>15,205,000</b>	<b>14,924,000</b>

(\*) The value of these properties as at 31 December 2016 has been determined by the peer comparison method, specified in appraisal report dated 27 November 2016

## GÜNEŞ SİGORTA ANONİM ŞİRKETİ

### CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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

#### 7. INVESTMENT PROPERTY (Continued)

Costs and accumulated depreciation of investment properties as at 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Cost	11,138,398	12,345,926
Accumulated depreciation	(6,388,621)	(6,230,878)
<b>Net book value</b>	<b>4,749,777</b>	<b>6,115,048</b>

There is no rental income from investment properties (31 December 2015: None).

There are no pledges on the investment properties (31 December 2015: None).

#### 8. INTANGIBLE ASSETS

Movements in intangible assets in the period from 1 January to 31 December 2016 and 2015 are as follows:

	1 January 2016	Additions	Disposals	31 December 2016
<b>Cost:</b>				
Rights	8,119,769	411,043	-	8,530,812
Computer software	16,507,653	-	-	16,507,653
	<b>24,627,422</b>	<b>411,043</b>	-	<b>25,038,465</b>
<b>Accumulated amortization:</b>				
Rights	(5,255,811)	(1,642,498)	-	(6,898,309)
Computer software	(6,878,188)	(1,650,765)	-	(8,528,953)
	<b>(12,133,999)</b>	<b>(3,293,263)</b>	-	<b>(15,427,262)</b>
<b>Net book value</b>	<b>12,493,423</b>			<b>9,611,203</b>

	1 January 2015	Additions	Disposals	31 December 2015
<b>Cost:</b>				
Rights	6,797,082	1,322,687	-	8,119,769
Computer software	16,507,653	-	-	16,507,653
	<b>23,304,735</b>	<b>1,322,687</b>	-	<b>24,627,422</b>
<b>Accumulated amortization:</b>				
Rights	(3,650,508)	(1,605,303)	-	(5,255,811)
Computer software	(5,227,424)	(1,650,764)	-	(6,878,188)
	<b>(8,877,932)</b>	<b>(3,256,067)</b>	-	<b>(12,133,999)</b>
<b>Net book value</b>	<b>14,426,803</b>			<b>12,493,423</b>

## GÜNEŞ SİGORTA ANONİM ŞİRKETİ

### CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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

#### 9. INVESTMENT IN EQUITY SHARES

	Participation Rate (%)	31 December 2016		31 December 2015	
		Cost	Carrying Value	Cost	Carrying Value
Güneş Tur. End. ve Tic. A.Ş. <sup>(2)</sup>	99.99	-	-	1,076,713	-
<b>Associates, net</b>		-	-	<b>1,076,713</b>	-
Vakıf Finansal Kiralama A.Ş.	15.65	13,614,690	20,966,510	10,171,914	12,104,491
Vakıf Gayrimenkul Yatı. Ort. A.Ş.	1.74	8,060,517	8,529,648	7,928,193	8,153,778
Vakıf Menk. Kıy Yat. Ort. A.Ş.	11.00	2,200,000	2,464,000	2,200,000	1,738,000
<b>Publicly traded investment in equity shares</b>		<b>23,875,207</b>	<b>31,960,158</b>	<b>20,300,107</b>	<b>21,996,269</b>
Vakıf Emeklilik A.Ş. <sup>(1)</sup>	37.10	27,260,175	297,081,611	26,554,375	261,146,000
Vakıf Finans Faktoring A.Ş. <sup>(3)</sup>	13.71	7,229,553	13,024,841	7,229,553	10,872,030
Taksim Otelcilik A.Ş. <sup>(3)</sup>	1.43	5,628,206	6,438,607	5,628,206	5,910,938
Vakıf Pazarlama Sanayi ve Ticaret A.Ş. <sup>(3)</sup>	9.76	13,989,682	5,739,048	13,989,682	5,182,560
Vakıf İnşaat Restorasyon Tic. A.Ş. <sup>(4)</sup>	10.00	5,915,332	900,801	5,915,332	896,300
Vakıf Yatırım Menkul Değerler A.Ş. <sup>(3)</sup>	0.25	130,801	265,747	130,801	216,750
Vakıf Enerji ve Madencilik A.Ş. <sup>(3)</sup>	1.77	4,703,224	255,933	4,703,224	249,570
Türk P ve İ Sigorta A.Ş. <sup>(5)</sup>	16.67	1,000,000	1,000,000	1,000,000	1,000,000
Tarım Sigortaları Havuz İşl. A.Ş. <sup>(5)</sup>	4.17	220,125	220,125	220,125	220,125
<b>Other non-marketable securities</b>		<b>66,077,098</b>	<b>324,926,713</b>	<b>65,371,298</b>	<b>285,694,273</b>
<b>Financial assets total</b>		<b>89,952,305</b>	<b>356,886,871</b>	<b>86,748,118</b>	<b>307,690,542</b>

- (1) Vakıf Emeklilik A.Ş., %37.10 of its shares owned by the Company, is classified as securities and carried at its fair value considering that there is no significant influence of the Company in accordance with "TAS 28 – Investments in Associates and Joint Ventures". As of 31 December 2016 and 2015, its fair value was determined based on valuation report dated 28 October 2016 prepared by a CMB licensed company.
- (2) The liquidation of Güneş Tur. End. ve Tic. A.Ş. has been registered on Trade Registry Gazette dated 21 October 2016.
- (3) As at 31 December 2016 and 2015 the fair value determined based on valuation reports held.
- (4) As at 31 December 2016 and 2015 the fair value determined based on valuation report prepared by a CMB licensed appraisal Company in 2008.
- (5) The financial assets recognised with cost, due to lack of market price of the financial asset or valuation report.

Movements of financial assets during the period as follows:

	2016	2015
<b>Beginning of the period - January 1</b>	<b>307,690,542</b>	<b>251,596,571</b>
Purchases	710,301	-
Fair value increases, recognised in equity (Note 15)	48,448,582	56,048,948
Other	37,446	45,023
<b>Period ending - December 31</b>	<b>356,886,871</b>	<b>307,690,542</b>

## GÜNEŞ SİGORTA ANONİM ŞİRKETİ

### CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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

#### 9. INVESTMENT IN EQUITY SHARES (Continued)

As of 31 December 2016 and 2015, there are no financial assets given as a guarantee. The table within the company's equity share and associates as it is below:

Thousand TRY	Total Assets	Total Equity	Current year Profit	Prior year Profit	Audited Unaudited	Period
Vakıf Emeklilik A.Ş.	5,590,855	199,376	61,404	30,858	Audited	31 December 2016
Vakıf Finansal Kiralama A.Ş.	1,686,425	169,759	23,510	23,594	Audited	31 December 2016
Vakıf Menk. Kıy. Yat. Ort. A.Ş.	18,131	17,448	(237)	(281)	Audited	31 December 2016
Vakıf Gayrimenkul Yat. Ort. A.Ş.	966,713	869,796	47,238	33,814	Audited	31 December 2016
Vakıf Finans Faktoring Hizmetleri A.Ş.	1,410,443	121,847	16,098	14,047	Audited	31 December 2016
Vakıf Yatırım Menkul Değerler A.Ş.	437,066	120,375	8,568	(5,459)	Audited	31 December 2016
Vakıf Enerji ve Madencilik A.Ş.	31,558	3,035	(2,602)	(2,266)	Unaudited	31 December 2016
Taksim Otelcilik A.Ş.	363,932	353,834	(2,648)	5,640	Unaudited	31 December 2016
Vakıf Paz. Sanayi ve Ticaret A.Ş.	67,763	51,490	5,904	3,861	Unaudited	31 December 2016
Tarım Sigortaları Havuz İşl. A.Ş.	15,154	9,071	1,122	790	Unaudited	31 December 2016
Türk P ve İ Sigorta A.Ş.	17,487	3,674	1,391	(610)	Unaudited	31 December 2016

#### 10. REINSURANCE ASSETS AND LIABILITIES

As a ceding company, outstanding reinsurance assets and liabilities of the Company shown in details as follows:

	31 December 2016	31 December 2015
<b>Reinsurance Assets /(Liabilities)</b>		
Provision for outstanding claims, ceded (Note 17)	467,420,641	403,151,064
Reserve for unearned premiums, ceded (Note 17)	341,409,357	322,137,138
Equalization provision reinsurance share (Note 17)	47,294,485	34,833,381
Unearned premiums SSI share	13,327,681	9,872,390
Reserve for unexpired risks reinsurance share (Note 17)	10,160,210	13,234,636
Deferred commission income (Note 17)	(55,594,535)	(54,530,906)
Current account net debts of reinsurance companies (Note 19)	(144,504,322)	(154,085,055)
As of 31 December 2016, the Company accounted for a provision amounting to TRY 21,497,122 in short term "other technical provisions" for the claim receivables from several reinsurance companies and reinsurance share of certain outstanding claim files considering that they are under arbitration process or impaired (31 December 2015: TRY 2,085,855) (Note17).		
<b>Reinsurance Income/(Expenses)</b>	<b>1 January - 31 December 2016</b>	<b>1 January - 31 December 2015</b>
Paid Claims - Reinsurer Share	229,577,705	175,211,993
Commissions received from reinsurers (net)	99,307,685	72,086,028
Outstanding claim provision- Reinsurer Share	64,269,577	93,743,257
Change in Unearned premium reserve- Reinsurer Share	19,272,219	32,768,164
Equalization provision - Reinsurer Share	12,461,104	11,795,805
Change in Unearned premium reserve SSI Share	3,455,291	(2,519,707)
Unexpired risk Reserve - Reinsurer Share	(3,074,426)	11,156,964
Ceded premiums to SSI	(24,454,974)	(22,365,923)
Ceded premiums to reinsurers	(597,714,030)	(541,978,659)

Detailed explanations about reinsurance agreements are disclosed in Note 2.14.



## GÜNEŞ SİGORTA ANONİM ŞİRKETİ

### CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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

#### 11. FINANCIAL ASSETS

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

	31 December 2016	31 December 2015
Financial assets held for trading	-	182,095
<b>Total</b>	<b>-</b>	<b>182,095</b>

Company's all government bonds shown above consist of publicly traded securities.

There is not any financial asset held by the Company issued by the related parties.

During the period, there is not any corporate bond issued or paid by the Company.

There is not any financial asset which is overdue but not impaired in the financial assets portfolio of the Company.

Movements of the Company's available-for-sale financial assets are as follows:

	2016	2015
<b>Balance at the beginning of the period - January 1</b>	<b>182,095</b>	<b>6,963,853</b>
Purchasing during the year	-	2,054,180
Disposals (by either sale or amortization)	(182,095)	(8,580,044)
Changes in financial assets at amortized cost revenues	-	(255,894)
<b>Balance at the end of the period - December 31</b>	<b>-</b>	<b>182,095</b>

#### 12. LOANS AND RECEIVABLES

	31 December 2016	31 December 2015
Receivables from operating activities	395,166,808	403,038,868
Other receivables	7,209,385	5,263,228
Prepaid taxes and funds	3,874,792	4,390,416
<b>Total</b>	<b>406,250,985</b>	<b>412,692,512</b>
Short-term receivables	406,084,938	412,541,446
Medium and long term receivables	166,047	151,066
<b>Total</b>	<b>406,250,985</b>	<b>412,692,512</b>

## GÜNEŞ SİGORTA ANONİM ŞİRKETİ

### CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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

#### 12. LOANS AND RECEIVABLES (Continued)

As at 31 December 2016 and 2015, receivables from operating activities are detailed as follows:

	31 December 2016	31 December 2015
Receivables from agencies, brokers and intermediaries	287,615,482	270,365,627
Salvage and subrogation (Note 2.20)	100,452,077	117,747,428
Receivables from policyholders	10,974,009	12,930,528
<b>Receivables from main insurance operations</b>	<b>399,041,568</b>	<b>401,043,583</b>
Provision for salvage and subrogation receivables (Note 2.20)	(235,527)	(282,852)
Provision for premium receivables	(7,827,464)	(2,212,191)
<b>Provisions for receivables from insurance operations</b>	<b>(8,062,991)</b>	<b>(2,495,043)</b>
<b>Total receivables from main insurance operations -net</b>	<b>390,978,577</b>	<b>398,548,540</b>
Salvage and subrogation receivables under administrative and legal follow up - gross	114,671,330	84,918,845
Doubtful receivables from main operations	20,614,250	18,182,859
<b>Doubtful receivables from main operations</b>	<b>135,285,580</b>	<b>103,101,704</b>
<b>Receivables from main operations-gross</b>	<b>526,264,157</b>	<b>501,650,244</b>
Provisions for salvage and subrogation receivables under administrative and legal follow up	(114,671,330)	(84,918,845)
Provisions for doubtful receivables from main operations	(16,426,019)	(13,692,531)
<b>Doubtful receivables from main operating activities</b>	<b>(131,097,349)</b>	<b>(98,611,376)</b>
<b>Receivables from main operations</b>	<b>395,166,808</b>	<b>403,038,868</b>

Details of salvage and subrogation receivables are as follows:

	31 December 2016	31 December 2015
Salvage and subrogation receivables - gross	213,927,465	182,935,025
Salvage and subrogation receivables - reinsurance share	(88,282,126)	(85,085,652)
<b>Salvage and subrogation</b>	<b>125,645,339</b>	<b>97,849,373</b>
Provisions for salvage and subrogation receivables under administrative and legal follow up	(114,671,330)	(84,918,845)
Provision of salvage and subrogation receivables	(235,527)	(282,852)
<b>Accruals of net salvage and subrogation receivables</b>	<b>10,738,482</b>	<b>12,647,676</b>

The related party transactions of the Company are presented in Note 45 in detail.

The receivables and payables denominated in foreign currencies and detailed analyses of foreign currency balances are presented in Note 4.2.

## CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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

## 13. DERIVATIVE FINANCIAL INSTRUMENTS

As of 31 December 2016 and 2015, the Company does not have any derivative financial instruments.

## 14. CASH AND CASH EQUIVALENT ASSETS

As of 31 December 2016 and 2015, cash and cash equivalents are as follows:

	31 December 2016		31 December 2015	
	At the end of the period	At the beginning of the period	At the end of the period	At the beginning of the period
Cash on hand	1,186	13,193	13,193	-
Banks	556,902,445	408,230,506	408,230,506	272,671,954
Receivables from Credit Cards	108,299,498	92,621,611	92,621,611	84,482,663
Postal Cheques	7,775	2,204	2,204	7,727
	<b>665,210,904</b>	<b>500,867,514</b>	<b>500,867,514</b>	<b>357,162,344</b>
Blocked amounts	(143,224,016)	(139,049,639)	(139,049,639)	(125,688,116)
Accrued interest on bank deposits	(1,831,070)	(950,021)	(950,021)	(636,962)
<b>Accrued interest on bank deposits in the statement of cash flows</b>	<b>520,155,818</b>	<b>360,867,854</b>	<b>360,867,854</b>	<b>230,837,266</b>

As at 31 December 2016 and 2015, bank balances are detailed as follows:

	31 December 2016	31 December 2015
Foreign currency denominated bank deposit		
- time deposit	20,837,597	9,889,618
- demand deposit	3,888,381	1,726,918
Bank deposits in Turkish Lira		
- time deposits	524,636,576	393,325,465
- demand deposits	7,539,891	3,288,505
<b>Banks</b>	<b>556,902,445</b>	<b>408,230,506</b>

As of 31 December 2016, the Company has blocked bank deposits in favour of Treasury in the amount of TRY 133,387,620 (31 December 2015: TRY 131,244,639), Tarım Sigortaları Havuz İşletmeleri A.Ş.'s (TARSİM) the amount of TRY 8,586,397 Tarım Sigortaları Havuz İşletmeleri AŞ ("TARSİM") (31 December 2015: TRY 6,555,000) and Central Bank of Turkish Republic of Northern Cyprus in the amount of TRY 1,250,000 (31 December 2015: TRY 1,250,000).

## 15. SHAREHOLDER'S EQUITY

## Paid in capital

As indicated in Note 2.13, the Company's paid capital has been raised to TRY 270,000,000 by increasing TRY 120,000,000 and the relevant capital increase has been registered in the Official Gazette dated 26 December 2016.

As of 31 December 2016, the Company has TRY 270,000,000 of the capital which is totally paid and that comprises of issued shares of 2,700,000,000 nominal (31 December 2015: 1,500,000,000 issued shares, TRY 150,000,000 paid capital).

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## 15. SHAREHOLDER'S EQUITY (Continued)

There are no privileges to any class of shares.

As at 31 December 2016, the shareholders which have direct or indirect control over the shares of the Company are Vakıflar Bankası with 48.20% of shares (31 December 2015: 36.35%) and Groupama S.A. with 20% of shares (31 December 2015: 36.00%).

There is no treasury shares held by the Company itself or by its subsidiaries or associates.

There is no shares issued which will be subject to sale in accordance with forward transactions and contracts.

## Other capital reserves

As at 31 December 2016 and 2015, the detail of other capital reserves in accompanying the financial statements are as follows:

	31 December 2016	31 December 2015
Funds of profit from sale of properties	77,748,330	17,822,568
Premium on issued shares (*)	654,992	-
<b>Capital Reserves</b>	<b>78,403,322</b>	<b>17,822,568</b>

(\*) TRY 654,992 of the difference between the nominal amount and the sale price of the shares offered to the public has been classified as premium on issued shares

In accordance with tax legislation, 75% of profits from sales of land and buildings and participation shares included in the assets of companies is exempted from corporate tax on a condition that it is classified under a special fund for five years. The exempted gains cannot be transferred to another account except for capital expenditure or cannot be paid as dividend for five years. In accordance with the 27 October 2008 dated and 2008/41 numbered sector announcement by Treasury, 75% of TRY 97,185,410 sales gain amounting to TRY 77,748,328 arising from sales of the other investment properties in 2010, 2014 and 2015, are recognised under "other capital reserve" account.

In accordance with the statements above, the Company has classified 75% of TRY 874,336 sales gain amounting to TRY 655,752 arising from sale of investment property as "Profit for the Year Not Subject to Dividend" in shareholders' equity. The total of the sales gain amounting to TRY 222,903 which calculated based the book value in accordance with TMS is recognised in the "Investment Income" account in income statement (31 December 2015: TRY 15,401,928) (Note 26).

## Legal reserves

The legal reserves consist of first and second reserves, appropriated in accordance with the TCC. The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5%, until the total reserve reaches 20% of the Company's paid-in share capital. The second legal reserve is appropriated at the rate of 10% of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

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## 15. SHAREHOLDER'S EQUITY (Continued)

The movement of legal reserves in the period is as follows:

	31 December 2016	31 December 2015
Legal reserves	4,949,441	4,949,441
<b>Legal reserves</b>	<b>4,949,441</b>	<b>4,949,441</b>

## Valuation of financial assets

As at 31 December 2016 and 2015, financial assets classified as available for sale securities, investments and equity securities resulting from changes in the fair value of the details are as follows:

	31 December 2016	31 December 2015
Investment in equity shares	286,146,708	239,953,208
<b>Valuation of financial assets</b>	<b>286,146,708</b>	<b>239,953,208</b>

The movements of change in fair value of investment in equity shares are given below:

	2016	2015
<b>Beginning of the period-January 1</b>	<b>239,953,208</b>	<b>186,842,726</b>
Fair value increase (Note 9)	48,448,582	56,048,948
Tax effect on fair value increase (Note 21)	(2,292,528)	(2,990,825)
Changes in fair value of debt securities	-	16,142
Other	37,446	36,217
<b>Period ending - December 31</b>	<b>286,146,708</b>	<b>239,953,208</b>

The value increase in financial assets in last 3 years (with the effect of related tax effect) is as follows:

Year	Change in Fair Value	Total Increase in fair value
2016	46,193,500	286,146,708
2015	53,110,482	239,953,208
2014	23,395,337	186,842,726

## Other profit reserves

In accordance with the 4 July 2007 dated and 2007/3 numbered Compliance Circular issued by Treasury, it was stated that the companies would not further provide earthquake provision for the year 2007. However, it was also stated that earthquake provisions provided in previous periods (earthquake provision in the financial statements as at 31 December 2006) should be transferred to the reserve accounts under equity in accordance with the 5th Temporary Article of the Insurance Law. The companies had to transfer total amount of provisions, including earthquake provisions reserved as at 31 December 2006 and related gains obtained from investment of these amounts, to the account called as "549.01 - transferred earthquake provisions" which would be opened as at 1 September 2007 within Uniform Chart of Account and the reserves amount should not be subject to dividend distribution or should not be transferred to other accounts. In accordance with the related laws and regulations as of 30 June 2007 TRY 12,464,935 amount of earthquake provisions has been transferred to other profit reserves under equity accounts at 3 September 2007.

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## 15. SHAREHOLDER'S EQUITY (Continued)

Details of other profit reserves are as follows:

	31 December 2016	31 December 2015
Revaluation Fund (Note 6)	126,790,558	115,650,215
Earthquake claim fund transferred to shareholder's equity	12,464,935	12,464,935
Transferred reserves from profits of prior years	6,592,946	6,592,946
Actuarial gain and loss	(3,153,756)	(2,574,941)
<b>Other profit reserves</b>	<b>142,694,683</b>	<b>132,133,155</b>

The movement of the revaluation funds is as follows:

	2016	2015
Beginning of the period - January 1	115,650,215	86,712,461
Increase/(decrease) in the revaluation fund, net	11,140,343	28,937,754
<b>End of the period - December 31 (Note 6)</b>	<b>126,790,558</b>	<b>115,650,215</b>

In accordance with "TMS 16 - Tangible Assets", the Company accounts for property (land and buildings) using the revaluation model. Increases in the carrying amounts arising on revaluation of land and buildings, net of tax, are accounted for in "Other capital reserves" under shareholders' equity. At each accounting period, the difference between depreciation based on the revalued carrying amount of the asset (charged to the statement of income) and the depreciation based on the asset's original cost is transferred from "Other Capital reserves" to retained earnings. In accordance with the current regulation, revaluation increases arising from the revaluation of property held for use are not allowed to be used in capital increases. The movements in the current period related to revaluation increases are disclosed in Note 6.

## 16. OTHER RESERVES AND EQUITY COMPONENT OF DISCRETIONARY PARTICIPATION FEATURE

The information about other reserves which are within the share holders' equity is at Note 15.

## 17. INSURANCE LIABILITIES AND REINSURANCE ASSETS

As of 31 December 2016 and 2015, details of technical provisions are as follows:

	31 December 2016	31 December 2015
Reserve for unearned premiums, gross	732,362,874	681,983,326
Reserve for unearned premiums, ceded (Note 10)	(341,409,357)	(322,137,138)
Reserve for unearned premiums, SSI ceded (Note 10)	(13,327,681)	(9,872,390)
<b>Reserve for unearned premiums, net</b>	<b>377,625,836</b>	<b>349,973,798</b>
Provision for outstanding claims, gross	1,072,271,876	921,743,589
Provision for outstanding claims, ceded (Note 10)	(467,420,641)	(403,151,064)
<b>Provision for outstanding claims, net</b>	<b>604,851,235</b>	<b>518,592,525</b>
Reserve for unexpired risks gross	11,938,492	61,744,092
Reserve for unexpired risks, ceded (Note 10)	(10,160,210)	(13,234,636)
<b>Reserve for unexpired risks, net</b>	<b>1,778,282</b>	<b>48,509,456</b>
Equalization provision, gross	70,212,240	53,312,664
Equalization provision, ceded (Note 10)	(47,294,485)	(34,833,381)
<b>Equalization provision, net</b>	<b>22,917,755</b>	<b>18,479,283</b>
<b>Other technical provisions, net (Note 10)</b>	<b>21,497,122</b>	<b>2,085,855</b>
<b>Total technical provisions, net</b>	<b>1,028,670,230</b>	<b>937,640,917</b>



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## 17. INSURANCE LIABILITIES AND REINSURANCE ASSETS(Continued)

In accordance with the 5 December 2014 dated and 2014/16 numbered "Circular on Provision for Outstanding Claim" by Treasury, the Company decided ACLM methods for each branch depending on the actuary's recommendation. Same methods implemented along with previous periods for ACLM calculations of all branches except Air Vehicle and Air Vehicle Liability branches. The development factors used on Compulsory Traffic was calculated by considering on incurred claim triangles that was excluded large claims to remove the misleading effect of them and those development factors was applied to the incurred claim triangles which include all claims. In addition, development and tail factors has been determined by using statistical methods and implemented to ACLM triangles in accordance with actuary's opinion. Loss ratio method implemented to ACLM triangles for General Liability branch as a result of large claim elimination pursuant to actuary's opinion. The ACLM calculations are performed on a gross basis and the net amounts are determined in accordance with the methods presented below. As of 31 December 2016 and 2015, ACLM calculation methods for branches and as a result of these calculations, additional gross or net reserves that will be reserved or that will be reduced from reserves are described below:

Branch	31 December 2016			31 December 2015		
	Method Used	Provision Gross Add	Provision Net, Add	Method Used	Provision Gross Add	Provision Net Add
Compulsory traffic	Standard	210,263,748	202,547,069	Standard	173,187,202	163,783,137
General liability	Claim/Premium	127,925,665	17,730,497	Claim/Premium	106,696,316	14,265,297
Accident	Standard	3,382,655	2,261,643	Standard	1,494,102	939,192
Facultative financial liability	Standard	3,488,269	3,420,946	Standard	3,931,792	3,757,221
Health	Standard	975,911	975,911	Standard	1,322,795	1,322,927
General losses	Standard	4,453,804	356,304	Standard	7,347,406	619,386
Breach of trust	Standard	6,814,614	392,522	Standard	-	-
Financial losses	Standard	84,391	4,160	Standard	(12,323)	(1,439)
Air vehicles	Claim/Premium	28,241,939	-	Standard	20,843,197	-
Air vehicles liability	CapeCod	12,118,885	-	Standard	(13,333,313)	-
Land vehicles	Standard	(14,005,310)	(13,754,615)	Standard	(16,205,992)	(15,690,641)
Fire and Natural disasters	Standard	(4,777,697)	(2,579,957)	Standard	(2,703,820)	(1,366,781)
Marine	Standard	(3,102,174)	(1,301,982)	Standard	(2,296,256)	(951,109)
Water vehicles	Standard	(4,131,762)	(390,865)	Standard	(3,475,295)	(276,286)
Legal protection	Standard	(3,262)	(1,179)	Standard	23,693	13,166
<b>Total</b>		<b>371,729,676</b>	<b>209,660,454</b>		<b>276,819,504</b>	<b>166,414,070</b>

Below are the details of methods used to calculate net amount of provisions with additional gross, as a result of ACLM calculations for branches:

Branch	Used net off method
Compulsory Traffic	Conservation rate of related reinsurance agreement
General Liability	Conservation rate of last period outstanding claim (after large claim elimination)
Facultative Financial Liability	Conservation rate of related reinsurance agreement
Air vehicles Liability	Conservation rate of incurred claims in ACLM table (after large claim elimination)
General Losses	Conservation rate of incurred claims in ACLM table (after large claim elimination)
Accident	Conservation rate of incurred claims in ACLM table (after large claim)
Health	Conservation rate of related reinsurance agreement
Fire and Natural Disasters	Conservation rate of incurred claims in ACLM table (after large claim elimination)
Breach of Trust	Conservation rate of incurred claims in ACLM table (after large claim elimination)
Marine	Conservation rate of incurred claims in ACLM table (after large claim elimination)
Air Vehicles	Conservation rate of incurred claims in ACLM table (after large claim elimination)
Legal Protection	Conservation rate of incurred claims in ACLM table (after large claim elimination)
Motor Own Damage	Conservation rate of related reinsurance agreement
Water Vehicles	Conservation rate of incurred claims in ACLM table (after large claim elimination)
Financial Losses	Conservation rate of incurred claims in ACLM table (after large claim elimination)

## CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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## 17. INSURANCE LIABILITIES AND REINSURANCE ASSETS (Continued)

The Company, while doing the ACLM calculations, eliminated the major 3 claims in a separate file to have a more homogeneous data set of calculations with the statistical methods, accepted by circular. The major claim limits to extract the major claims for branches which are as a result of the calculations are described below:

Branch	31 December 2016	31 December 2015
Air Vehicles	1,362,080,795	582,849,054
General Liability	382,161,054	84,551,836
Breach of trust	338,597,068	-
Water Vehicles	184,225,652	717,548,351
Marine	90,414,330	65,486,099
Accident	66,329,507	28,371,576
Air Vehicle Liability	26,981,086	17,309,070
General Losses	10,193,105	6,291,277
Facultative Financial Liability	1,906,350	2,409,718
Land Vehicles	703,828	587,099
Financial Losses	366,067	127,999
Compulsory Traffic	350,750	286,550
Fire and Natural Disasters	324,923	348,815
Health	68,898	56,100
Legal Protection	53,063	36,747
Credit	-	67,481

As of 31 December 2016 and 2015, movements of insurance liabilities and reinsurance assets are as follows:

	2016		
	Gross	Reinsurer's share	Net
Beginning of the period - January 1	681,983,326	(332,009,528)	349,973,798
Written premium during the period	1,372,978,363	(622,169,004)	750,809,359
Earned premiums during the period	(1,322,598,815)	599,441,494	(723,157,321)
<b>Period ending - December 31</b>	<b>732,362,874</b>	<b>(354,737,038)</b>	<b>377,625,836</b>

	2015		
	Gross	Reinsurer's share	Net
Beginning of the period - January 1	627,734,506	(301,761,071)	325,973,435
Written premium during the period	1,288,378,653	(564,344,582)	724,034,071
Earned premiums during the period	(1,234,129,833)	534,096,125	(700,033,708)
<b>Period ending - December 31</b>	<b>681,983,326</b>	<b>(332,009,528)</b>	<b>349,973,798</b>

	2016		
	Gross	Reinsurer's share	Net
<b>Beginning of the period - 1 January</b>	<b>690,151,064</b>	<b>(316,896,482)</b>	<b>373,254,582</b>
Claims paid during the period	(236,278,466)	152,950,117	(83,328,350)
Change			
- Indirect claims	1,433,080	(10,106,250)	(8,673,170)
- Current period outstanding claims	270,478,956	(97,261,892)	173,217,064
- Prior years outstanding claims	38,746,234	(68,723,770)	(29,977,536)
<b>Total reported claims end of the period</b>	<b>764,530,868</b>	<b>(340,038,277)</b>	<b>424,492,590</b>

Deduction amount calculated in accordance with winning ratio	(63,988,665)	34,686,856	(29,301,809)
Incurred but not reported claims	371,729,674	(162,069,220)	209,660,454
<b>Period ending - December 31</b>	<b>1,072,271,877</b>	<b>(467,420,641)</b>	<b>604,851,235</b>

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**17. INSURANCE LIABILITIES AND REINSURANCE ASSETS (Continued)**

	2015		Net
	Gross	Reinsurer's share	
<b>Beginning of the period - 1 January</b>	<b>524,102,202</b>	<b>(255,543,764)</b>	<b>268,558,438</b>
Claims paid during the period	(210,015,015)	70,371,811	(139,643,204)
Change			
- Indirect claims	(494,686)	547,255	52,569
- Current period outstanding claims	336,147,361	(141,828,799)	194,318,562
- Prior years outstanding claims	40,411,202	9,557,015	49,968,217
<b>Total reported claims end of the period</b>	<b>690,151,064</b>	<b>(316,896,482)</b>	<b>373,254,582</b>
Deduction amount calculated in accordance with winning ratio	(45,226,979)	24,150,852	(21,076,127)
Incurred but not reported claims	276,819,504	(110,405,434)	166,414,070
<b>Period ending - December 31</b>	<b>921,743,589</b>	<b>(403,151,064)</b>	<b>518,592,525</b>

**Claim development tables**

The basic assumption used in estimation of the provision for outstanding claims is the Company's past experience of claims development. In determining the effect of external factors like court decisions and legal changes provision for outstanding claims; The Company management uses its own judgments. Sensitivity of estimations caused by legal changes and other ambiguities in the process of estimation is not measurable. Also the long intervals between the time claim happens and the payment time prevent the provision for outstanding claims to be determined clearly. Consequently, total liabilities can change according to subsequent events and differences occurred by this re-estimation of the total liabilities are booked in financial statements in succeeding periods

Development of insurance liabilities allows measuring the performance of the Company in estimating the total claims liability. The amounts in the upper part of the tables below show the changes in the Company's estimations of aggregate claims from the time that claims happened, whereas the amounts in the lower part of the table gives the reconciliation of the total liabilities with the provision for outstanding claim that is presented on the financial statements.

31 December 2016

Claim year	1 January - 31 December 2010	1 January - 31 December 2011	1 January - 31 December 2012	1 January - 31 December 2013	1 January - 31 December 2014	1 January - 31 December 2015	1 January - 31 December 2016	Total
Claim year								
1 year later	375,594,438	373,965,937	378,335,577	434,488,656	522,612,270	617,841,990	581,818,123	3,284,656,991
2 year later	146,380,337	149,761,538	162,245,521	175,515,268	238,855,994	298,041,643	-	1,170,800,301
3 year later	60,795,670	70,538,943	75,378,104	87,960,008	134,183,048	-	-	428,855,773
4 year later	56,839,849	54,536,823	76,622,029	88,872,279	-	-	-	276,870,980
5 year later	60,199,520	55,280,589	81,360,544	-	-	-	-	196,840,653
6 year later	64,835,894	53,295,959	-	-	-	-	-	118,131,853
7 year later	66,942,698	-	-	-	-	-	-	66,942,698
<b>Total incurred loss - Gross</b>	<b>831,588,406</b>	<b>757,379,789</b>	<b>773,941,775</b>	<b>786,836,211</b>	<b>895,651,312</b>	<b>915,883,633</b>	<b>581,818,123</b>	<b>5,543,099,249</b>

31 December 2015

Claim year	1 January - 31 December 2009	1 January - 31 December 2010	1 January - 31 December 2011	1 January - 31 December 2012	1 January - 31 December 2013	1 January - 31 December 2014	1 January - 31 December 2015	Total
Claim year								
1 year later	397,898,639	376,945,705	372,211,320	374,306,732	420,148,691	500,667,794	597,462,699	3,039,641,580
2 year later	113,646,052	121,112,791	130,538,634	141,049,102	147,147,309	206,877,962	-	860,371,850
3 year later	31,975,186	52,885,984	61,919,770	57,980,426	78,841,970	-	-	283,603,336
4 year later	24,509,364	48,549,443	45,639,570	57,711,546	-	-	-	176,409,923
5 year later	27,543,027	49,330,497	48,160,890	-	-	-	-	125,034,414
6 year later	35,880,205	51,618,121	-	-	-	-	-	87,498,326
7 year later	39,348,158	-	-	-	-	-	-	39,348,158
<b>Total incurred loss - Gross</b>	<b>670,800,631</b>	<b>700,442,541</b>	<b>658,470,184</b>	<b>631,047,806</b>	<b>646,137,970</b>	<b>707,545,756</b>	<b>597,462,699</b>	<b>4,611,907,587</b>

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**17. INSURANCE LIABILITIES AND REINSURANCE ASSETS (Continued)**

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

	31 December 2016		31 December 2015	
	Should be placed (*)	Placed	Should be placed (*)	Placed
Non-life:				
Bank deposits (Note 14)		134,637,620		132,494,639
<b>Total</b>	<b>119,130,009</b>	<b>134,637,620</b>	<b>120,020,513</b>	<b>132,494,639</b>

(\*) Under the article 4 of the "The Communiqué on the Financial Structure of Insurance, Reinsurance and Pension Companies", published in accordance with the Insurance Law, in the Official Gazette dated 7 August 2007 and numbered 26606, the insurance companies and private pension companies operating in life and personal accident branches are required to provide guarantees that equal to one third of required capital amount as determined by capital adequacy calculation, as Minimum Guarantee Fund, in each capital adequacy calculation period.

**Total amount of insurance risk on a branch basis**

	31 December 2016	31 December 2015
Motor third party liability	1,326,934,873,950	1,700,493,897,040
Fire and nature disasters	206,317,243,277	144,283,103,766
Health	134,641,198,284	21,045,739,658
General losses	114,290,337,146	94,625,821,723
General liability	20,377,285,167	30,002,814,992
Air vehicles liability	20,367,470,806	18,095,314,688
Land vehicles	17,517,160,168	17,889,672,706
Financial losses	11,535,981,440	4,102,304,427
Accident	9,728,588,241	10,425,584,427
Water vehicles	4,354,332,051	3,525,092,317
Marine	4,097,954,311	4,453,108,353
Air vehicles	2,728,649,060	2,361,236,446
Legal protection	1,240,238,216	1,396,990,680
<b>Total</b>	<b>1,874,131,312,117</b>	<b>2,052,700,681,223</b>

**Company's number of life insurance policies, additions, disposals during the year and the related mathematical reserves**

None (31 December 2015: None).

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

None (31 December 2015: None).

**Distribution of mathematical reserves for life insurance policyholders who left the Company's portfolio as individual or group during the period**

None (31 December 2015: None).

**Deferred commission expenses**

Deferred portion of commissions paid to the intermediaries in relation to the policy production are capitalized under the account of "short-term prepaid expenses" in the accompanying financial statements. Total prepaid expenses amounting to TRY . 99,188,353 (31 December 2015: TRY 90,914,866) is composed of deferred commission expenses amounting to TRY 91,138,398 (31 December 2015: TRY 83,866,181) and other prepaid expenses amounting to TRY 8,049,955 (31 December 2015: TRY 7,048,685).

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### CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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#### 17. INSURANCE LIABILITIES AND REINSURANCE ASSETS (Continued)

As at 31 December 2016 and 2015, the movements of deferred commission expenses are presented below:

	2016	2015
Deferred commission expenses at the beginning of the period	83,866,181	78,478,762
Commissions accrued during the period	197,239,863	183,110,550
Commissions expensed during the period (Note 32)	(189,967,646)	(177,723,131)
<b>Deferred commission expenses at the end of the period</b>	<b>91,138,398</b>	<b>83,866,181</b>

#### Individual pension funds

None (31 December 2015: None).

#### 18. INVESTMENT CONTRACT LIABILITIES

None (31 December 2015: None).

#### 19. TRADE AND OTHER PAYABLES DEFERRED INCOME

	31 December 2016	31 December 2015
Payables arising from operating activities	176,526,366	181,543,075
Deferred Commission Incomes (Note 10)	55,594,535	54,530,906
Payables to SSI	4,790,622	4,780,422
Other various payables	15,633,863	16,480,461
Rediscount for other payables	(84,648)	(66,604)
<b>Total</b>	<b>252,460,738</b>	<b>257,268,260</b>

As of 31 December 2016 payables arising from operating activities are debts to reinsurance companies amounting to; TRY 144,504,322 (31 December 2015: TRY 154,085,055) (Note 10).

As of 31 December 2016 and 2015, details of other payables are as follows:

	31 December 2016	31 December 2015
Accounts payable	9,662,407	7,622,753
Payables to Turkish Natural Catastrophe Insurance Pool (TCIP)	3,712,853	3,873,443
Payables to contracted repair shops	2,193,868	4,695,908
Other payables	64,735	288,357
<b>Total</b>	<b>15,633,863</b>	<b>16,480,461</b>

#### Total amount of investment discount for the current and future periods

None (31 December 2015: None).

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#### 20. FINANCIAL LIABILITIES

The company does not have any financial debt as of 31 December 2016 (31 December 2015: None).

Details of finance lease liabilities of the Company are as follows:

	31 December 2016		31 December 2015	
	Gross	Net	Gross	Net
Less than 1 year	1,739,714	1,658,420	1,972,523	1,818,764
Between 1-4 years	-	-	287,370	278,195
<b>Total</b>	<b>1,739,714</b>	<b>1,658,420</b>	<b>2,259,893</b>	<b>2,096,959</b>

#### 21. DEFERRED TAXES

The Company calculates deferred income tax assets and liabilities for the temporary differences in the balance sheet items arising due to the measurement in these financial statements and measurement in accordance with Tax Procedure Law. The enacted tax rate used for the calculation of deferred income tax assets and liabilities on temporary differences that are expected to be realized in the following periods under the liability method is 20% and 5% (31 December 2015: %20 or %5).

As of 31 December 2016 and 2015, the temporary differences giving rise to deferred income tax assets and liabilities with using enacted tax rates are as follows:

	Total temporary differences		Deferred tax assets/(liabilities)	
	December 31, 2016	December 31, 2015	December 31, 2016	31 December 2015
<b>Deferred tax assets</b>				
Accumulated tax losses-	132,091,552	132,091,552	26,418,310	26,418,310
Impairment provision for associates-	20,161,322	21,238,035	4,032,264	4,247,607
Equalization provision	19,453,815	15,654,272	3,890,763	3,130,854
Provision for severance pay and vacation	11,581,355	9,499,916	2,316,271	1,934,076
Provision for doubtful receivables	8,062,991	2,495,043	1,612,598	499,009
Provision for legal cases	2,735,367	3,051,965	547,073	610,393
Reserve for unexpired risks-	1,778,282	48,509,456	355,656	9,701,891
Rediscount Recievables	52,429	(3,764,476)	10,486	(752,896)
Other Technical Provisions	23,254,660	2,085,855	4,650,932	417,171
	<b>219,171,773</b>	<b>230,861,618</b>	<b>43,834,353</b>	<b>46,206,415</b>
<b>Deferred tax liabilities</b>				
Fair value differences in associates	(290,560,960)	(245,650,031)	(15,233,498)	(12,940,970)
Revaluation fund of properties held for use	(135,546,635)	(123,188,417)	(8,756,077)	(7,538,202)
Revaluation difference of investment properties	(8,697,115)	(7,445,865)	(434,856)	(372,293)
Fixed assets	(3,461,282)	(4,636,005)	(692,255)	(927,201)
Debt Rediscounts	(19,825)	3,015,543	(3,965)	603,109
	<b>(438,285,817)</b>	<b>(377,904,775)</b>	<b>(25,120,651)</b>	<b>(21,175,557)</b>
<b>Deferred tax assets</b>	<b>(219,114,044)</b>	<b>(147,043,157)</b>	<b>18,713,702</b>	<b>25,030,858</b>



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#### 21. DEFERRED TAXES (Continued)

The movements of deferred tax during the period are as follows:

	2016	2015
Beginning of the period - 1 January	25,030,858	19,291,738
Deferred tax income	(2,951,458)	10,846,647
Deferred tax, recognised in equity over the revaluation fund of properties held for own use (Note 6)	(1,217,875)	(2,157,589)
Deferred tax effect of actuarial gain and loss	144,705	40,887
Deferred tax, recognised in equity over the revaluation differences of financial assets (Note 15)	(2,292,528)	(2,990,825)
<b>End of the period - December 31,</b>	<b>18,713,702</b>	<b>25,030,858</b>

As of 31 December 2016 and 2015, the remaining periods to maturity of the Company's accumulated tax losses:

	31 December 2016	31 December 2015
Until 2016	-	10,763,746
Until 2017 (*)	29,983,585	59,967,170
Until 2018 (*)	37,965,045	75,930,090
Until 2019 (*)	11,630,866	23,261,732
Until 2020 (*)	60,854,974	137,554,117
Until 2021	62,876,957	-
<b>Total</b>	<b>203,311,427</b>	<b>307,476,855</b>

(\*) As indicated in Note 2.17, in accordance with the regulation numbered 6736, the Company will not be able to offset 50% of the carry forward tax losses against future taxable profits for the years those the tax bases have been increased. As of 31 December 2016, these amounts represent 50% of the tax losses of the respective years.

As of 31 December 2016, the Company has accumulated tax losses amounting to TRY 203,311,427 (31 December 2015: TRY 291,632,685). The Management has accounted for deferred income tax asset amounting to TRY 26,418,310 (31 December 2015: TRY 26,418,310) for the accumulated tax losses amounting to TRY 132,091,552 (31 December 2015: TRY 132,091,552) in the accompanying financial statements after allocating a provision for carry forward tax losses amounting to TRY 71,219,875 (31 December 2015: TRY 159,541,133) which the Company will not be able to utilise according to the five year projections.

#### 22. RETIREMENT BENEFIT OBLIGATIONS

None (31 December 2015: None).

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### CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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#### 23. PROVISIONS FOR OTHER LIABILITIES AND EXPENSES

As at 31 December 2016 and 2015, the details of the provisions for other liabilities and expenses are as follows:

	31 December 2016	31 December 2015
Provision for law suit and court expense	2,735,367	3,051,965
Provision for unused vacations	1,028,512	935,434
<b>Provision for accrued expenses</b>	<b>3,763,879</b>	<b>3,987,399</b>
<b>Provision for severance pay</b>	<b>10,552,843</b>	<b>8,734,945</b>

Movements of provision for severance pay during the period are presented below:

	2016	2015
At the beginning of the period - 1 January	8,734,945	9,134,944
Interest cost	960,844	835,847
Service cost	996,122	1,122,027
Payments during the period	(862,587)	(2,528,336)
Actuarial loss/(gain)	723,519	170,463
<b>At the end of the period - December 31</b>	<b>10,552,843</b>	<b>8,734,945</b>

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**24. NET INSURANCE PREMIUM INCOME**

As of 1 January - 31 December 2016 and 2015 details of written premiums are as follows:

	1 January - 31 December 2016		1 January - 31 December 2015		Net			
	Gross	Re-Share	SSI Share	Net				
Motor third party liability	269,368,930	(6,372,516)	(24,451,482)	238,544,932	251,926,688	(7,288,959)	(22,360,820)	222,276,909
Motor own damage	258,014,047	(5,251,779)	-	252,762,268	267,241,582	(4,996,772)	-	262,244,810
Health	118,626,234	(16,403)	-	118,609,831	115,613,751	-	-	115,613,751
Fire and natural disasters	269,267,325	(195,974,523)	-	73,292,802	251,246,368	(188,917,899)	-	62,328,469
Accident	30,042,013	(7,933,651)	(3,492)	22,104,870	31,590,196	(6,596,437)	(5,103)	24,988,656
General losses	199,334,404	(183,375,159)	-	15,959,245	170,553,311	(153,083,068)	-	17,470,243
Legal protection	20,912,142	(7,740,376)	-	13,171,766	9,113,734	(3,335,287)	-	5,778,447
Marine	20,824,245	(10,745,357)	-	10,078,888	24,989,983	(16,531,273)	-	8,458,710
General liability	26,033,793	(22,434,431)	-	3,599,362	29,500,441	(25,886,581)	-	3,613,860
Water vehicles	19,983,788	(18,157,771)	-	1,826,017	16,262,785	(15,181,848)	-	1,080,937
Financial losses	3,453,371	(2,756,126)	-	697,245	1,897,769	(1,768,103)	-	129,666
Air vehicles liability	68,183,799	(68,085,796)	-	98,003	74,435,076	(74,435,076)	-	-
Breach of trust	224,814	(160,684)	-	64,130	-	-	-	-
Air vehicles	68,709,458	(68,709,458)	-	-	44,006,969	(43,957,356)	-	49,613
<b>Total</b>	<b>1,372,978,363</b>	<b>(597,714,030)</b>	<b>(24,454,974)</b>	<b>750,809,359</b>	<b>1,288,378,653</b>	<b>(541,978,659)</b>	<b>(22,365,923)</b>	<b>724,034,071</b>

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**25. SUBSCRIPTION FEE REVENUE**

None (31 December 2015: None).

**26. INVESTMENT INCOME**

	1 January - 31 December 2016	1 January - 31 December 2015
Foreign exchange gains	33,102,066	37,600,560
Income from financial investment	47,253,274	33,307,334
Acquired incomes		
land, estate and buildings sales from (Note 15)	223,903	15,401,928
Income from associates	1,052,588	8,695,000
Valuation of financial investments	(1,470,343)	3,301,412
Valuation of land, estate and buildings (Note 7)	1,891,000	998,072
Rent incomes	789,920	738,926
Other investments	7,587	198,338
<b>Total</b>	<b>82,849,995</b>	<b>100,241,570</b>

**27. NET REALIZED GAINS ON FINANCIAL ASSETS**

Net realized gains on financial assets are presented in Note 4.2.

**28. NET FAIR VALUE GAINS ON ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

Net realized gains on financial assets are presented in Note 4.2.

**29. INSURANCE RIGHTS AND CLAIMS**

Disclosed in Note 17.

**30. INVESTMENT CONTRACT BENEFITS**

None (31 December 2015: None).

**31. OTHER EXPENSES**

The allocation of the expenses with respect to their nature or function is presented in Note 32.

**32. EXPENSE BY NATURE**

Details of operating expenses included in the income statement are as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Commission expenses (Note 17)	189,967,646	177,723,131
Employee benefit expense	68,114,870	66,706,456
Subcontractor service expenses	5,022,691	4,840,759
Information technology expenses	3,157,694	2,476,685
Transportation expenses	2,971,326	3,034,949
Communication expenses	1,739,875	1,200,010
Advertising expenses	1,202,934	2,210,139
Rent expenses	1,119,759	1,351,989
Office equipment expenses	890,591	1,735,662
Light, water, heating costs	795,768	852,085
Consultancy expenses	724,992	414,259
Representation expenses	674,407	557,750
Insurance procuring expenses	658,252	663,545
Cargo expenses	626,464	607,937
Cleaning expenses	353,475	488,234
Subscription expenses	108,972	409,890
Acquired commission incomes from reinsurer (Note 10)	(99,307,685)	(72,086,028)
Other operating expenses	26,734,907	20,375,908
<b>Total</b>	<b>205,556,938</b>	<b>213,563,360</b>

## CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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

## 33. EMPLOYEE BENEFIT EXPENSES

The details of employee benefit expenses are as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Wages and salaries	51,833,399	51,259,510
Employer's share in social security premiums	8,074,050	7,305,101
Other fringe benefits	5,567,658	5,512,503
Other benefits	2,639,763	2,629,342
<b>Total</b>	<b>68,114,870</b>	<b>66,706,456</b>

## 34. FINANCE COSTS

Finance costs are presented in Note 4.2 - Financial Risk Management above. There are no finance costs classified in production costs or capitalized on tangible assets.

## 35. INCOME TAXES

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

	1 January - 31 December 2016	1 January - 31 December 2015
<i>Deferred taxes:</i>		
Tax arising from		
Change of deductible temporary differences	(3,342,710)	7,436,184
Tax arising from		
Change of taxable temporary differences	391,252	3,410,463
<b>Total income tax expense recognised in statement of income</b>	<b>(2,951,458)</b>	<b>10,846,647</b>

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 1 January - 31 December 2016 and 2015 is as follows:

	31 December 2016		31 December 2015	
	Before tax Profit	Tax rate (%)	Before tax loss	Tax rate (%)
	(47,810,988)		(173,415,527)	
Income tax provision at statutory tax rate	9,562,198	20.00	34,683,105	20.00
Disallowable expenses	(369,238)	(0.77)	(525,924)	(0.30)
Deferred tax assets not recognised	(12,575,390)	(26.00)	(27,510,823)	(15.86)
Income not subject to tax	98,315	0.21	4,735,288	2.73
Other	332,657	0.70	(534,999)	0.31
<b>Total income tax expense reflected in the statement of income</b>	<b>(2,951,458)</b>	<b>0.21</b>	<b>10,846,647</b>	<b>19.76</b>

## 36. NET FOREIGN EXCHANGE GAINS

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

## CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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

## 37. GAIN/(LOSS) PER SHARE

Earnings(loss) per share are calculated by dividing net profit(loss) for the period into weighted average number of shares of the Company.

	1 January - 31 December 2016	1 January - 31 December 2015
Net income(loss) for the period	(50,762,448)	(162,568,880)
Weighted average number of shares	1,516,438,356	1,500,000,000
Earnings(loss) per share (TRY)	(0.0335)	(0.1084)

## 38. DIVIDENDS PER SHARE

None (31 December 2015: None).

## 39. CASH GENERATED FROM OPERATIONS

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

## 40. CONVERTIBLE BONDS

None (31 December 2015: None).

## 41. REDEEMABLE PREFERENCE SHARES

None (31 December 2015: None).

## 42. CONTINGENCIES

In the normal course of its operations, the Company is exposed to legal disputes, claims and challenges, in which mainly stem from its insurance operations. The necessary income/expense provision for those revocable cases against/on behalf of the Company are provided whether under provision for outstanding claims or provisions for other risks in the accompanying financial statements.

As of 31 December 2016, if all cases in which the Company is defendant, result in against the Company, amount of arising potential liability (including interest and other expenses) is TRY 540,504,687 (31 December 2015: TRY 422,318,359). Provision for all these cases is recognised under provision for outstanding claim account in the related financial statements.

As of 31 December 2016, if all cases which the Company is plaintiff, result in favour of the Company, collection amounting to TRY 202,743,205 gross (31 December 2015: TRY 169,283,419) is expected and also same amount of receivable provision is recorded with respecting to the reinsurer share. At the same time, for the cases which the Company is plaintiff about doubtful receivables of insurance operations, provision is recorded at an amount of TRY 16,426,019 (31 December 2015: TRY 13,692,532).

As a result of the tax inspection performed at the Company by the Ministry of Finance Tax Supervisory Board relating to 2007 and 2008 insurance transactions, the Company was notified of tax principal and penalties equal to TRY 1,343,490 for 2007 and TRY 1,921,964 for 2008 on 20 December 2013. The company was notified of penalties of TRY 2,158,478 for 2009 on 28 November 2014 and TRY 6,334,772 for 2010, 2011, and 2012 on 19 June 2015. No payment was made by the Company with respect to tax principal and penalty amounts and the Company started the judicial process within its legal rights in 2014. Notification of the justified decisions of the tax lawsuits opened by the Company regarding the tax principal and penalties for 2007 and 2008 at Istanbul 1. Tax Council was made on 9 April 2015. The court ruled to cancel the tax and penalty assessment, stating that an appeal can be made to the Council of State within 30 days of the notification of the decision. The Ministry of Finance has appealed the court decisions on the tax principal and penalty amounts for 2007 and 2008. Regarding the tax principal and penalties for 2010, 2011, and 2012, notification of the justified decisions for the tax lawsuits opened at the Istanbul 1. Tax Council was made on 28 January 2016. The court ruled to cancel the tax and penalty assessment, stating that an appeal can be made to the Council of State within 30 days of notification of the decision. The Ministry of Finance has appealed the court decisions on the tax principal and penalty amounts for 2009, 2010, 2011 and 2012. Within this scope, and considering the results of the Company's lawsuits, no provisions were made in the financial statements regarding this issue.



## GÜNEŞ SİGORTA ANONİM ŞİRKETİ

### CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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

#### 43. COMMITMENTS

The details of the guarantees which are given by the Company in favour or the Treasury for insurance operations are presented in Note 17.

Within the framework of operating lease the sum of the minimum lease payments are as follows for leased properties for the use of head offices and regional offices and rented vehicles for the marketing and sales team:

	31 December 2016	31 December 2015
Less than 1 year	1,532,572	1,815,934
More than 1 year and less than 5 years	2,064,777	136,642
<b>Total minimum rent payments</b>	<b>3,597,349</b>	<b>1,952,576</b>

#### 44. BUSINESS COMBINATIONS

None (31 December 2015: None).

#### 45. RELATED PARTY TRANSACTIONS

The Company's shareholders, associates, companies of Vakıflar Bankası Groups and companies of Groupama Groups are referred to related parties in the accompanying financial statements.

As at 31 December 2016 and 2015, related party balances are as follows:

	31 December 2016	31 December 2015
Vakıflar Bankası T.A.O.	219,320,212	156,178,400
<b>Cash and cash equivalents</b>	<b>219,320,212</b>	<b>156,178,400</b>
Vakıflar Bankası T.A.O. ( <i>credit receivables longer than 3 months</i> )	35,761,873	28,306,183
Vakıflar Bankası T.A.O. ( <i>Premium Receivables</i> )	33,450,126	32,774,760
Vakıf Sigorta Aracılık Hizmetleri Ltd. Şti.	2,445,520	3,139,878
Groupama Sigorta A.Ş.	162,663	(450,856)
Vakıf Finans Faktoring A.Ş.	147,824	247,992
Vakıf Emeklilik A.Ş.	142,890	165,955
Taksim Otelcilik A.Ş.	54,317	48,005
Vakıf Yatırım Menkul Değerler A.Ş.	1,573	-
Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş.	(370)	(370)
<b>Receivables from operating activities</b>	<b>72,166,416</b>	<b>64,231,547</b>
Payables to related parties	12,105	15,066
<b>Payables to related parties</b>	<b>12,105</b>	<b>15,066</b>
Advances given to personnel	58,822	156,009
<b>Other current assets</b>	<b>58,822</b>	<b>156,009</b>
Vakıf Finansal Kiralama A.Ş.	1,658,420	2,096,959
<b>Financial liabilities</b>	<b>1,658,420</b>	<b>2,096,959</b>

No guarantees have been taken for the receivables from related parties.

## GÜNEŞ SİGORTA ANONİM ŞİRKETİ

### CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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

#### 45. RELATED PARTY TRANSACTIONS (Continued)

Related party transactions are as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Vakıflar Bankası T.A.O.	161,978,117	147,027,364
Vakıf Sigorta Aracılık Hizmetleri Ltd.	8,626,124	9,463,736
Vakıf Emeklilik A.Ş.	1,319,059	1,053,451
Taksim Otelcilik A.Ş.	681,070	411,250
Vakıf Menkul Kıymetler Yatırım Ortaklığı A.Ş.	15,015	16,329
Vakıf İnşaat ve Restorasyon	845	859
<b>Written premiums</b>	<b>172,620,230</b>	<b>157,972,989</b>
Vakıflar Bankası T.A.O.	20,650,913	18,148,545
Vakıf Sigorta Aracılık Hizmetleri Ltd.	1,061,764	1,228,667
<b>Commissions paid</b>	<b>21,712,677</b>	<b>19,377,212</b>
Vakıflar Bankası T.A.O.	789,920	738,926
<b>Rent income</b>	<b>789,920</b>	<b>738,926</b>
Vakıf Emeklilik A.Ş.	145,884	193,560
Vakıflar Bankası	-	120,871
<b>Finance expense</b>	<b>145,884</b>	<b>314,431</b>
Vakıflar Bankası T.A.O.	20,297,246	23,810,887
<b>Finance incomes</b>	<b>20,297,246</b>	<b>23,810,887</b>
Vakıflar Bankası T.A.O.	290,622	20,607
<b>Finance expenses</b>	<b>290,622</b>	<b>20,607</b>
Vakıf Emeklilik A.Ş.	491,575	8,695,000
<b>Dividend income</b>	<b>491,575</b>	<b>8,695,000</b>
Vakıflar Bankası T.A.O.	199,823	206,876
<b>Other operating expenses</b>	<b>199,823</b>	<b>206,876</b>

There are no doubtful receivables from shareholders, associates and subsidiaries and there is no debt for them. There are no responsibilities to give guarantee, security, advance, and endorsement in favor of shareholders, associates, subsidiaries.

#### 46. SUBSEQUENT EVENTS

None.

CONVENIENCE TRANSLATION OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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

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

As of 31 December 2016 and 2015, details of other receivables are as follows:

	31 December 2016	31 December 2015
Receivables from DASK insurance agencies	2,410,089	3,762,485
Other various receivables	1,298,656	476,865
Deposits and guarantees given	166,047	151,066
<b>Other receivables (Note 4.2)</b>	<b>3,874,792</b>	<b>4,390,416</b>

Other current assets

As of 31 December 2016 and 2015, details of other current assets are as follows:

	31 December 2016	31 December 2015
THY baggage claim account	1,363,686	1,538,906
<b>Other current assets</b>	<b>1,363,686</b>	<b>1,538,906</b>

"Total amount of each due to/from personnel items classified under "Other Receivables" and "Other Short and Long Term Payables" exceeding one percent of total assets in the balance sheet

None (31 December 2015: None).

Subrogation receivables followed under the off-balance sheet accounts

None (31 December 2015: None).

Description and amount of rights in real on property

None (31 December 2015: None).

Descriptive disclosure in relation to amounts and resources of income, expenses, and losses for the prior periods

None (31 December 2015: None).

For the years ended 31 December 2016 and 2015, details of rediscount and provision expenses are as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Provision expense for recovery receivable under legal follow-up (Note 4.2)	(29,752,485)	(40,284,239)
Doubtful receivables provision from reinsurance operations	(19,411,267)	-
Provision for premium receivable under legal follow-up (Note 4.2)	(5,615,273)	1,325,909
Doubtful receivables provision from agencies (Note 4.2)	(2,887,280)	(3,419,893)
Provision expenses for employment termination benefits	(1,094,378)	570,462
Provision expenses for unused vacations	(93,078)	653,128
Provision expenses for employee lawsuits and courts	316,598	(1,582,753)
Premium receivable provision no longer required	153,792	740,920
Recovery receivable provision by the management (Note 4.2)	47,325	(129,370)
Change in incentive commissions provision expenses	-	2,000,000
Other provision expenses	(1,207,588)	(765,980)
<b>Provisions</b>	<b>(59,543,634)</b>	<b>(40,891,816)</b>

APPENDIX I - STATEMENTS OF PROFIT DISTRIBUTION

Notes	Current Period	Prior Period
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I. DISTRIBUTION OF PROFIT FOR THE PERIOD

- 1.1. PROFIT FOR THE PERIOD
- 1.2. TAXES PAYABLE AND LEGAL LIABILITIES
  - 1.2.1. Corporate Tax (Income Tax)
  - 1.2.2. Income Tax Deduction
  - 1.2.3. Other Taxes and Legal Liabilities
- A NET PROFIT FOR THE PERIOD (1.1 - 1.2)**
- 1.3. PREVIOUS YEARS' LOSSES (-)
- 1.4. FIRST LEGAL RESERVE
- 1.5. LEGAL FUNDS TO BE KEPT IN THE COMPANY (-)

B NET DISTRIBUTABLE

PROFIT FOR THE PERIOD [ (A - (1.3 + 1.4 + 1.5) ]

- 1.6. FIRST DIVIDEND TO SHAREHOLDERS (-)
  - 1.6.1 To common shareholders
  - 1.6.2 To preferred shareholders
  - 1.6.3 To owners of participating redeemed shares
  - 1.6.4 To owners of profit-sharing securities
  - 1.6.5 To owners of profit and loss sharing securities
- 1.7. DIVIDENDS TO PERSONNEL (-)
- 1.8. DIVIDENDS TO FOUNDERS (-)
- 1.9. DIVIDENDS TO THE BOARD OF DIRECTORS (-)
- 1.10. SECOND DIVIDENDS TO SHAREHOLDERS (-)
  - 1.10.1. To common shareholders
  - 1.10.2. To preferred shareholders
  - 1.10.3. To owners of participating redeemed shares
  - 1.10.4. To owners of profit-sharing securities
  - 1.10.5. To owners of profit and loss sharing securities
- 1.11. SECOND LEGAL RESERVE (-)
- 1.12. STATUTORY RESERVES (-)
- 1.13. EXTRAORDINARY RESERVES
- 1.14. EXTRAORDINARY RESERVES
- 1.15. SPECIAL FUNDS

II. DISTRIBUTION FROM RESERVES

- 2.1. DISTRIBUTED RESERVES
- 2.2. SECOND LEGAL RESERVE (-)
- 2.3. DIVIDENDS TO SHAREHOLDERS (-)
  - 2.3.1. To common shareholders
  - 2.3.2. To preferred shareholders
  - 2.3.3. To owners of participating redeemed shares
  - 2.3.4. To owners of profit-sharing securities
  - 2.3.5. To owners of profit and loss sharing securities
- 2.4. DIVIDENDS TO PERSONNEL (-)
- 2.5. DIVIDENDS TO THE BOARD OF DIRECTORS (-)

III. PROFIT PER SHARE

- 3.1. TO COMMON SHAREHOLDERS
- 3.2. TO COMMON SHAREHOLDERS (%)
- 3.3. TO PREFERRED SHAREHOLDERS
- 3.4. TO PREFERRED SHAREHOLDERS (%)

IV. DIVIDENDS PER SHARE

- 4.1. TO COMMON SHAREHOLDERS
- 4.2. TO COMMON SHAREHOLDERS (%)
- 4.3. TO PREFERRED SHAREHOLDERS
- 4.4. TO PREFERRED SHAREHOLDERS (%)

Since there is no profit distribution for the financial period 31 December 2016 and 2015, the statements of profit distribution have not been prepared.

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