

TURKISH NATURAL CATASTROPHE INSURANCE POOL (TCIP)

2017 ANNUAL REPORT

Call Center: Alo 125 / Fax: 0216 474 23 64
Address: Altunizade Mah. Ord. Prof. Fahrettin Kerim Gökay Cad.
No:20 34662 Üsküdar / İstanbul
www.dask.gov.tr

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ABBREVIATIONS

TCIP - Turkish Natural Catastrophe Insurance Pool
 ZDS - Compulsory Earthquake Insurance
 SBM - Insurance Information and Monitoring Centre
 AFAD - Disaster and Emergency Management Authority
 CBSGM - Directorate General of Geographic Information Systems of the Ministry of Environment and Urbanisation
 AYS - Disaster Management System (the application of TCIP on which it carries out claims management and payments)
 ARYS - Natural Disaster Risk Management System (the GIS tool of TCIP where it carries out damage estimation and management)
 NVI - General Directorate of Civil Registration and Citizenship
 UAVT - National Address Database
 MAKS - Spatial Address Registration System
 AYDES - Disaster Management and Decision Support System
 ODM - Disaster Recovery Centre
 TLT - Organizing Community Leaders

MESSAGE FROM THE CHAIRMAN OF THE BOARD



Dear Stakeholders,

Although earthquake is an undeniable reality of Turkey which is evident based on scientific data, as a nation, unfortunately we cannot firmly say that we have achieved the necessary awareness level for and taken the measures that will protect us from earthquake. The responsibility borne by TCIP comes into play at this very point.

As TCIP, with all our operational competency, knowledge, experience and financial security, we have been working for 18 years in order that our country becomes prepared to earthquakes, overcomes possible earthquakes with minimal damages and is able to achieve a swift recovery. Being aware of the value that we represent for our country and the great responsibility that we have undertaken on behalf of Turkey, with the support of the entire insurance sector, we are showing our best effort to contribute to adoption by our society of the term Compulsory Earthquake Insurance. Because we know that the Compulsory Earthquake Insurance is the most effective financial measure to be taken against the reality of earthquake.

As TCIP, today we are providing service to over 8 million of insured with our policy production service which is used by 31 insurance companies and 16,000 agencies. In addition to this, we are able to perform the damage procedures through the Disaster Management System (AYS) which is capable of providing service according to future needs after any and all earthquakes from the

smallest to the largest scale, and the Mobile Damage Assessment Application which operates as integrated with this system.

This system and our investments such as the SAP Damage Management System may indeed be regarded as a successful reflection of TCIP's commitment to catching up with the digital transformation age and even setting an example to its own sector in this field. With the experience that we have gained here, we will continue to reflect the digital transformation in our pool, to take faster, more productive and profitable steps in all areas, and to develop new solutions aimed at the needs of our country.

Accordingly, based upon the needs of our country, we have also started to work on a pool system starting from the year 2017 again under this roof, which will take our country under protection against nuclear risks.

Like in other countries which are obliged to live with the reality of earthquake, we also need well- functioning insurance mechanisms and social responsibility awareness in order to overcome and continue our lives after a probable earthquake with minimum damage. Every citizen should consider the future of Turkey in addition to their own future when taking the necessary measures against earthquake. We can have safer lives and futures only when we are able to introduce this awareness to our country.

From the first day it has started its journey, TCIP's slogan has been "Earthquake will pass, and the life will go on". Today, with

our payment ability of TL 17 billion, we are ready for a healthy and swift recovery period following any potential disaster to occur; however, we will still not stop working until we secure a Turkey which is fully insured.

I would like to extend my thanks to all the TCIP family, our business partners and stakeholders for their superior efforts and endeavours in the year 2017 which we have completed with success by taking great steps in line with this aim.

Best regards,

Murat Kayacı

Chairman of Board of Directors

MESSAGE FROM THE GENERAL MANAGER OF TECHNICAL OPERATOR EUREKO SİGORTA



Dear stakeholders,

We are taking the justified pride of having left behind a year in which we have continued our activities with passion and determination, aimed at increasing the rates of insured in our country and ensuring that our society can be prepared to the reality of earthquake which is of particular concern to our country. According to the data of 2018, the number of active earthquake policies has reached 8,3 million in the 18th year of TCIP. While the rate of insured has increased to 47,30 percent throughout Turkey, as TCIP, our payment ability in the event of a single damage has reached TL 17 billion with our own resources and the reinsurance protection.

In 2017, we have also continued the efforts for the Disaster Management Project which is being implemented under the umbrella of TCIP and is a candidate to be a reference to the world in relation to disaster management. It has become possible to perform the damage procedures through the Disaster Management System (AYS) without problem. In today's world where the significance of digitalization increases gradually, we as TCIP have paid particular attention to ensure that our investments are capable of meeting the requirements of digital age. Based upon this vision, within the scope of the Disaster Management System (AYS), we have accelerated our endeavours to enable the performance of damage assessment through mobile devices, and carried out efforts for widespread use of the application. Upon the complete adoption of Mobile Damage Assessment Application, the

damage assessments will now be able to be performed far more quickly and faultlessly. In the upcoming period, we are planning to ensure performance of damage assessment only by the Mobile Damage Assessment Application, and in this framework, for the purpose of wide-spreading our Mobile Damage Assessment Application and increasing its use, we will continue to hold loss adjuster training meetings within the scope of 2018 business plan.

We have strengthened our cooperation with the other State institutions with which we have common endeavours in case of disaster, and we have carried out special efforts. With the protocol which was signed in this framework on August 17, 2017 by Turkey's Deputy Prime Minister in charge of Economy, Mr. Mehmet Şimşek, and the Minister of Environment and Urbanisation, Mr. Mehmet Özhaseki, loss adjusters of the Directorate General of Construction Works, who have only assessed damages that fell within the scope of their own field up until today, shall from now on also work for assessment of damages on buildings which are covered by Compulsory Earthquake Insurance (ZDS). In order to explain the significance of the protocol and to give information on the details, we held a joint meeting in the Kızılcahamam district of Ankara together with the Ministry of Environment and Urbanisation. Provincial Directors and Deputy Directors of the Ministry of Environment and Urbanisation from various provinces of Anatolia have participated in the event.

In 2017, by giving priority and intensifying our endeavours to provide security diversity and cost advantage, we have increased our reinsurance capacity limit of structured capital

markets, maintained the catastrophe bond capacity under Bosphorus Ltd., and obtained reinsurance support from the State. The reinsurance protection of TCIP was renewed as of November 1, 2017 in line with the properties of the existing portfolio and by also taking into consideration the cost increases to occur after earthquake, and an excess of loss reinsurance protection has been formed, which provides a security of Euro 2,5 billion and which also includes reinsurance solutions that are structured by capital markets. In the period from 2017 to 2018, an excess of loss reinsurance support of Euro 215 billion has been granted by the State with the decision of the Council of Ministers within the scope of the traditional reinsurance protection. In addition, a supplemental capacity has been created with Cat Bond/Catastrophe Bond (Bosphorus Ltd.), which is valid until 2018 and which has provided a supplemental capacity of 100 million dollars for Istanbul.

As known, the damage payment capacity need of TCIP increases depending upon the number of active policies. We are anticipating that this growth trend will continue in the future. In addition to the reinsurance programs structured in this framework, our researches are ongoing for making use of alternative risk transfer products, catastrophe bonds being in the first place.

Our Disaster Call Centre endeavours, which began with the determination of scope and general process of the project together with the experts of the call centre, have continued with the assessment of the existing process and preparation of the impact map of a probable Istanbul earthquake. An operation model has been established in this respect and the contracting stage has started. With

the necessary infrastructure preparations, the contract has also been brought to its last stage, and it has been made possible to reach a point where the services can start after trainings. This modelling study, which we have made for an earthquake, the time, place and extent of which are uncertain, but the damage impact of which is not possible to be disregarded, and the model that we have created, have no other known example in the world.

As TCIP, we are taking great pride in having created a confidence in the world's markets, with our financial structure and our projects which set an example to the world. Our aim is to make this example model that we have created sustainable, and to ensure that all residential properties in our country are covered by the Compulsory Earthquake Insurance. During 2018 and for the upcoming years, we wish to maintain and further improve our projects in accordance with this aim. We will restlessly continue with our communications endeavours whereby we increase especially the insurance awareness and explain the measures which may be taken in relation to earthquakes. In this sense, we have already determined our strategies and road maps together with our public relations and advertisement agencies. Within the scope of these plans, we have organised the third Building Design Contest and received a record number of applications from 43 universities. 28 of the 85 applications in total have been able to pass pre-screening. During the finals which continued for three days at Istanbul Ottoman Archives, university students

have found the opportunity to work with the invaluable teachers in the area of earthquake engineering. The students' awareness in significance of resistant building design and insurance awareness has increased. On the other hand, as of September 2017, we have started to plan the fourth year of our contest. We have started to work with invaluable academicians in the area of earthquake engineering for the content studies.

On the other hand, in order to reinforce the powerful position that the Turkish Natural Catastrophe Insurance Pool has attained and to submit to the opinions, proposals and assessments of our stakeholders the economic and social value that we produce for our country and our society, we have started our efforts for the Social Stakeholder Analysis in February 2017. During the process, we have performed face-to-face interviews and questionnaire studies. The studies made with the aim of producing qualified data for planning the strategies of TCIP in the upcoming period were completed in December 2017. On the other hand, for the purpose of increasing public awareness and knowledge in relation to TCIP Compulsory Earthquake Insurance, our content studies have continued, aimed at the "Cities are Competing" project, which will be performed throughout Turkey in cooperation with AFAD. Within the scope of the concept of Safety at our Home, all the relevant materials have been planned. Endeavours are ongoing for ensuring that the Project can be ready for implementation.

While leaving behind one more year, I would like to extend my thanks to all TCIP employees and our stakeholders who have added value to our pool and to our country and all residential property owners who have entered into the system with the awareness of Compulsory Earthquake Insurance and also raised awareness for it in their own circle, for their efforts and valuable contributions.

Best regards,

Can Akın Çağlar

Member, Board of Directors, and General Manager of Eureka Insurance, the Technical Operator

Social

In order to reinforce the powerful position that TCIP has attained within a short period of time and to expand the economic and social value that it generated

Stakeholder

for our country and our society with the

Analysis

opinions, proposals and assessments of its stakeholders, a Social Stakeholder Analysis practice was conducted in 2017.

STAKEHOLDERS

Comprehensive question sets have been prepared for the Social Stakeholder Analysis practice. Taking into consideration the unique position of TCIP, the stakeholders from public and private sector with whom it is in direct interaction and cooperation have been determined.

ONE-ON-ONE INTERVIEWS

Within the scope of the analysis process which was started accordingly, one-on-one and thorough interviews have been held with and opinions and evaluations have been received from more than 40 qualified persons from 10 public institutions, 3 industry-specific NGOs, and 10 companies including banks, insurance companies, insurance agencies and loss adjusters.

QUESTIONNAIRE

More comprehensive surveys have been organised for the organisations of those stakeholders with whom one-on-one and thorough interviews have been held and those insured by TCIP, and opinions and proposals have been received from 14,188 persons.

RECOMMENDATION

On the other hand, with the assessment meeting which all the employees of TCIP have participated in, TCIP's internal opinion and its proposals which will carry TCIP to the future have also been included in the process.

SECTION 1

ABOUT TCIP

ABOUT TCIP

1.1 ESTABLISHMENT AND PURPOSE OF TCIP

After the Marmara Earthquake which occurred on August 17, 1999 and caused a significant loss of life and property, many precautions have been taken by the public authority for the purpose of minimizing the earthquake damages. One of the most important ones of these measures is the regulations introduced in relation to Compulsory Earthquake Insurance (ZDS). Established with the Decree Law No 587 and having provided ZDS coverage for residential properties since September 27, 2000, TCIP has gained a more robust legal framework with the Disaster Insurances Law no 6305 which entered into force on August 18, 2012.

TCIP is an “insurance pool” in the status of a public legal entity, and was established to provide ZDS coverage. Having a unique organizational structure formed in cooperation of public and private sectors, TCIP is a non-profit organization.

TCIP acts as an intermediary in ensuring that life returns back to normal by compensating building damages in the fastest way.

Based upon the approach “Earthquake will pass, and the life will go on”, TCIP aims to ensure that life of citizens can safely resume following an earthquake. With

ZDS, it provides financial security to insured residential property owners against earthquake as well as fire, explosion, landslide and tsunami risks arising from earthquake. Whether a building has become non-inhabitable or sustained partial damage, TCIP acts as an intermediary ensuring that the life returns to normal, by estimating building damages in the fastest way.

While TCIP increases the wide-spread use of ZDS throughout the country with its distribution network consisting of insurance companies as well as agencies affiliated thereto and bank branches, it also aims to make it easier for everyone to have this coverage with the low premium costs it applies.

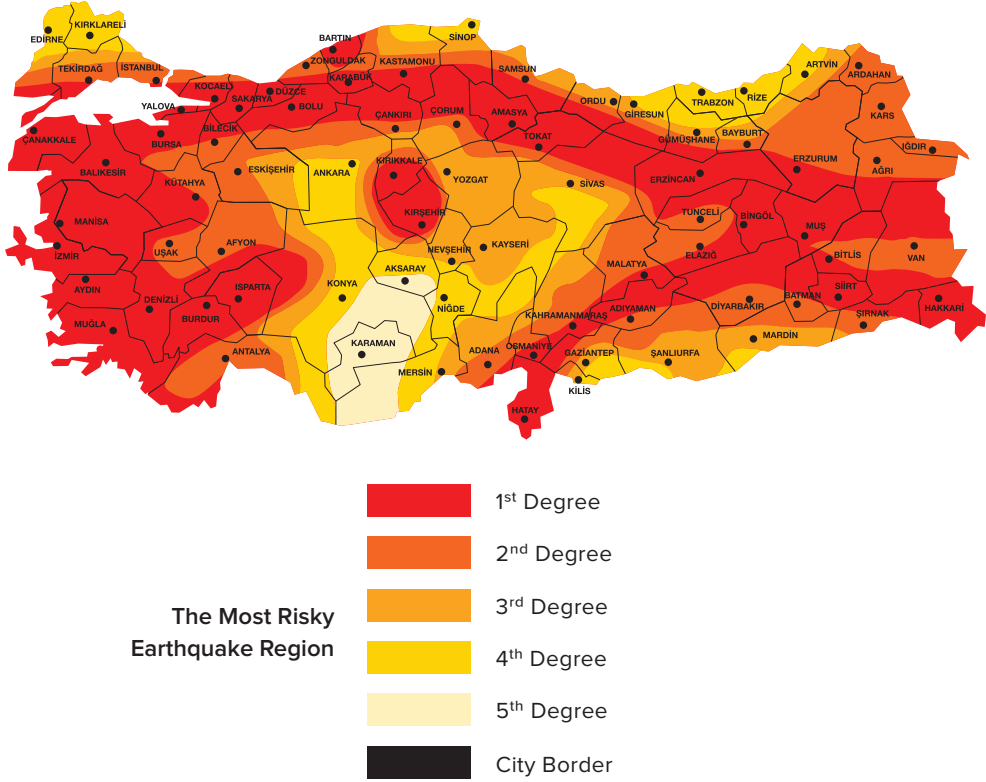
ZDS is the social responsibility of all of us!

Having supported the insurance activities through events for raising the awareness of the public opinion, TCIP underlines that ZDS is, above all, a social responsibility of all of us.

The fact that earthquake is the type of disaster which is encountered the most in our country in the last 60 years is not an unexpected situation for our country, almost all of which is located in the earthquake zone. Moreover, by its nature, earthquake is a disaster type with a severity which may unsettle economically not only the region where it occurs, but also the entire country.

While ZDS provides personal housing coverage, it also constitutes a security pool for our country. This financial pool, size of which gains importance especially after an earthquake, is also a guarantee for those in need who have a ZDS policy in cases of earthquakes which may have occurred not in the place where we live but at another place.

MAP OF TURKEY'S EARTHQUAKE ZONES



The system which was formed has revealed a successful performance, and it is shown as a model application by the international organizations for many countries.

The purposes of establishment of this system, which was formed with the cooperation of the State and the insurance sector for satisfaction of the needs in the most efficient and fastest manner, can be listed as follows:

- » Taking all residential properties that fall within the scope, under coverage against earthquakes, with premiums at affordable levels,
- » Ensuring risk sharing within the country,
- » Distributing the financial burden of earthquake damages on our country by

means of insurance to international reinsurance and capital markets,

- » Mitigating the financial burden of the State arising from earthquakes and especially from construction of post-earthquake disaster houses,
- » Preventing the possible supplementary taxes arising from the financial burdens of the State, which will be reflected on the citizens,
- » Using the insurance system as an incentive tool for the construction of earthquake-resistant buildings.
- » Providing long-term resource accumulation for compensating earthquake damages and
- » Contributing to development of insurance and social solidarity awareness within the society.

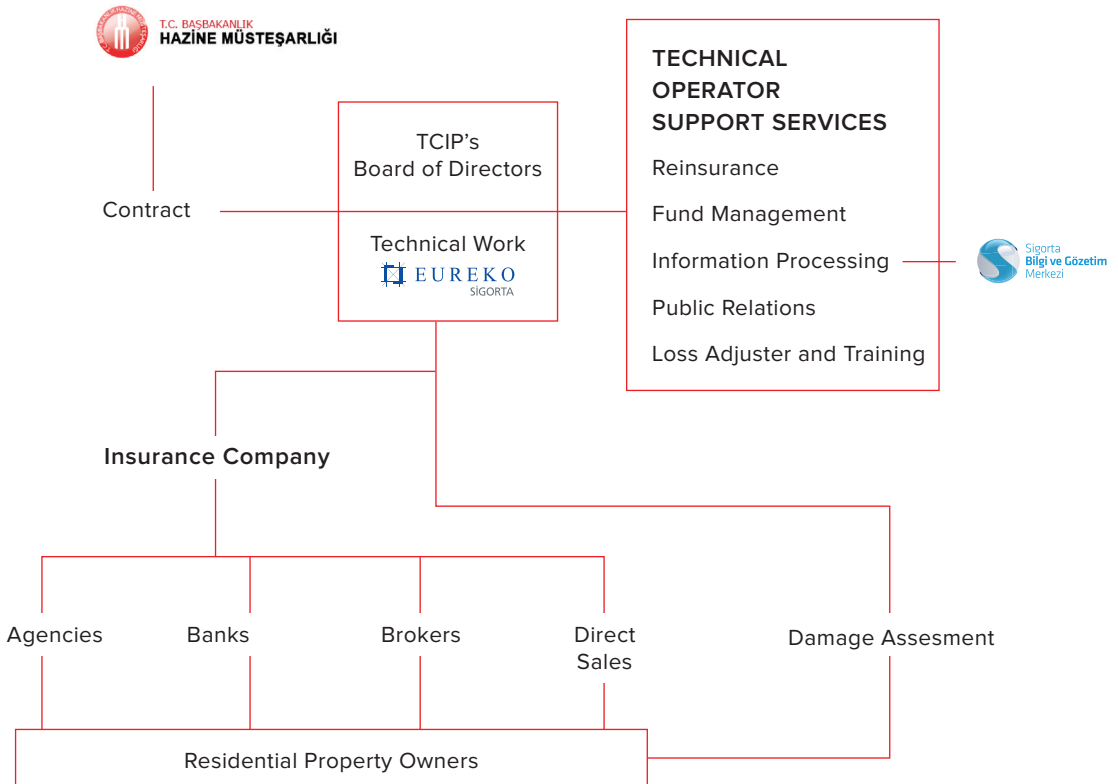
1.2 ORGANISATIONAL STRUCTURE OF TCIP

TCIP constitutes one of the best examples of public and private sector cooperation with its structure and operations. Technical and operational affairs of the Pool are performed by an insurance or reinsurance company which is designated by the Undersecretariat of Treasury for periods of five years. Although the insurance coverage is provided by the Pool, ZDS is offered to residential property owners by the insurance companies. By this way, TCIP has brought together within its own body the advantages of public and private sector and formed an efficient working order.

Today, TCIP continues its practices uninterruptedly in order both to ensure

continuity of policies and to include into the system those residential property owners who have not yet insured their house. TCIP not only manages the policy issuance in order to achieve a sustainable growth in ZDS, but also continues to sign for significant promotion and social responsibility projects which will develop earthquake and insurance awareness.

TCIP is an insurance pool in technical sense, and there is no need for a physical organisational structure for carrying out the works of the Pool. Instead, services are outsourced for all the works for the purpose of increasing the efficiency and keeping the costs at a minimum level. General organisational structure of the Pool is as follows.



1.3 BOARD OF DIRECTORS

TCIP is managed by a Board of Directors consisting of seven members in total, one of them being the chairman of the Board. Members of the Board of Directors consist of top level public officials specialized in different areas (5), a private sector official (1) and a university representative (1).

Composition of TCIP's Board of Directors is based on allowing representation of the relevant parties and successful conduct of the ZDS program.

Accordingly, the Board of Directors where representatives of various institutions and organisations take office consists of the persons specified in the below table.

CHAIRMAN AND MEMBERS OF THE BOARD OF DIRECTORS

Name	Position	Organisation and Title
Murat KAYACI	Chairman	Deputy General Director of the Directorate General of Insurance of the Undersecretariat of Treasury
Prof. Dr. Mustafa ÖZTÜRK	Member	Undersecretary of the Ministry of Environment and Urbanisation
Mehmet GÜLLÜOĞLU	Member	President of Prime Ministry Disaster and Emergency Management Authority (AFAD)
Prof. Dr. Alper İLKI	Member	ITU Faculty of Civil Engineering, Department of Civil Engineering
Emre ÖNYURT	Member	Deputy Chairman of the Capital Markets Board
Mehmet Akif EROĞLU	Member	Secretary General of the Association of the Insurance, Reinsurance and Pension Companies of Turkey
Can Akın ÇAĞLAR	Member	General Manager of the Technical Operator Eureko Sigorta A.Ş.

TCIP,
is also under
the close radar
of international
organisations.

1.4 MANAGING COMPANY

Performance of the technical and operational affairs of TCIP is ensured by outsourcing. Pursuant to article 6 of the Disaster Insurances Law no 6305, a service contract of maximum five years is made between the Undersecretariat of Treasury and the company selected for this purpose, and this contract is renewed according to the same procedure. In this context, Eureka Sigorta A.Ş. has been determined to be the "Technical Operator" for a third term of 5 years from August 8, 2015 to 2020.

The Technical Operator is responsible for performance of the technical and operational affairs of TCIP under the rules specified by the legislation and the service contract and the decisions taken by TCIP's Board of Directors.

Primary Duties of the Technical Operator

- » To perform the necessary managerial and operational works with all the relevant stakeholders for the purpose of printing and distribution of policies, collection of premiums, determination of damages and making of the compensation payments,
- » To implement risk transfer and reinsurance plans,
- » To canalize the Pool's resources into investment under determined principles and limitations, to conduct the relations with the portfolio management companies working with TCIP and to inform the Board of Directors of the operations of the portfolio management companies,
- » To monitor and recognize the Pool's incomes and expenses and all the accounts and transactions in private and separate entries,
- » To carry out public relations, promotion and education campaigns,

Until 2020,
Eureka Sigorta A.Ş.
is responsible as the
technical operator for
performance of the
technical and
operational affairs
of TCIP.

- » By making the necessary correspondence with other persons, institutions and organizations on behalf of the Pool, to preserve the information/documents in due form and to make purchase of the goods and services which are necessary to be outsourced in relation to the Pool's affairs, and
- » To prepare the studies, briefings and reports required by the Undersecretariat of Treasury.

The primary aim of Eureka Sigorta's practices as the technical operator of TCIP is to increase the rates of insured on the one hand, while bringing the damage operations to perfection on the other hand. In accordance with this aim, it conducts its efforts to constitute the necessary working order in all the activities of the Pool by using top technologies, to constitute the infrastructure by which TCIP will provide an efficient damage service in a possible large-scale earthquake, and to establish reinsurance programs which will ensure that sufficient financial resources can be at the Pool's service in such a situation. All these efforts are carried out by taking into consideration the fact that the Pool is an organization which performs its activities in line with social responsibility principles.

1.5 COMPULSORY EARTHQUAKE INSURANCE

As of the end of 2017, all the elementary insurance companies carrying on business in Turkey and 16 thousand agencies of these companies throughout Turkey are ensuring that TCIP can be easily accessible throughout the country.

1.5.1 SCOPE

In the general sense, ZDS is an insurance system developed for residential properties which remain within the boundaries of municipalities.

31 Authorized
Insurance
Companies &
16 thousand
Agencies

With the Disaster Insurances Law no 6305 and the secondary legislation introduced in accordance with this Law, buildings within the scope of this insurance have been concretely determined.

Scope of Coverage

- » Buildings constructed as a residential property on privately owned immovables, which are registered at the land registry,
- » The independent sections under the Condominium Law No.634,
- » The independent sections in these buildings which are used for business purposes, as office space and similar purposes,
- » Residential properties constructed by the State or with the loans granted thereby due to natural disasters

Buildings in compliance with the aforementioned conditions, established as a construction servitude, and buildings for which type classification has not yet been made at the land registry office and which are shown on the land register as a "land etc."; ZDZ coverage must also be in place for cooperative houses for which no type classification has been conducted yet.

Insurance of residential properties which do not have an independent title deed yet may be made based upon the statement by the insurant and the information regarding the title deed of the land.

Buildings which are not covered

- » Buildings which are constructed by permanent village residents who are registered in the civil registry of the village, on the residential areas of the village and in its vicinity and on the arable fields,
- » Buildings which are entirely used for commercial or industrial purposes,
- » Buildings and independent sections which are subject to the Public Housing Law no 2946 dated 9.11.1983 or which are used as public service building,
- » Buildings with no project which have not undergone any engineering service,
- » Buildings constructed in breach of the relevant legislation and project, in a way that negatively impacts the load-bearing system,
- » Buildings which are decided to be demolished by the competent public authorities, and uncared-for, worn out or derelict buildings which are not suitable for residential use.

ZDS policies are issued for an on behalf of TCIP through the authorised insurance companies and the agencies of these companies. Currently, 31 authorised insurance

companies and the agencies of these companies are issuing ZDS policies for an on behalf of TCIP. In addition, for the purpose of eliminating the losses in renewals due to lack of follow-up, renewal notices and direct sales practices aimed at renewal policies are ongoing by the Pool.

1.5.2 CHECK POINTS

For increasing the extensiveness of Compulsory Earthquake Insurance, efficient control mechanisms are being formed for effecting insurance during electricity and water subscriptions, land registry transactions and housing loan application.

Electricity and Water Subscriptions

Pursuant to the provision of article 11 of the Disaster Insurances Law no 6305 stating that “in the water and electricity subscription transactions made in relation to buildings and independent sections which are within the scope of the Compulsory Earthquake Insurance, existence of Compulsory Earthquake Insurance is controlled by the relevant organisation”, ZDS controls have started to be made at all electricity and water administrations during subscription transactions starting from August 18, 2012.

For the purpose of providing operational convenience to institutions in the controls made during the electricity and water subscription transactions, services which can

be provided by electronic information flow between institutions have been prepared and made available to those institutions requesting the same.

Land Registry Transactions

From 2000 up until today, during official transactions at land registry offices such as purchase and sales or mortgage, the requirement for residential properties to be insured is sought. This circumstance has been re-determined in article 11 of the Law No 6305.

For the purpose of providing convenience to citizens in land registry transactions and reducing the operational burden at the land registry offices, integration has been ensured which provides electronic information flow among institutions.

Housing Loans

Pursuant to article 13 of the Insurance Law no 5684, article 24 of the Regulation on the Operating Principles of Turkish Natural Catastrophe Insurance Pool, article 5 of the Regulation on the Codes of Practice for Insurances in Connection with Personal Loans, and article 7 of the Tariff and Instructions for Compulsory Earthquake Insurance, Compulsory Earthquake Insurance is required to be made in connection with housing loans made available by banks. If no Compulsory Earthquake Insurance is made by the person who borrowed the housing loan, it must be made by the bank which makes the loan available, by informing the insured. In case no renewal is made by the insured for the period of the loan, it is obligatory for the bank to ensure the renewal of the relevant policy by informing the insured.

1.5.3 AUTHORISED INSURANCE COMPANIES

ZDS policies are issued for and on behalf of TCIP through the below-specified 31 authorised insurance companies and the agencies of these companies.

1. AK SİGORTA A.Ş.
2. ALLIANZ SİGORTA A.Ş.
3. ANADOLU ANONİM TÜRK SİGORTA ŞTİ.
4. ANKARA ANONİM TÜRK SİGORTA ŞTİ.
5. AXA SİGORTA A.Ş.
6. BERKET SİGORTA A.Ş.
7. DUBAI STARR SİGORTA A.Ş.
8. ERGO SİGORTA A.Ş.
9. ETHICA SİGORTA A.Ş.
10. EUREKO SİGORTA A.Ş.
11. GENERALİ SİGORTA A.Ş.
12. GROUPAMA SİGORTA A.Ş.
13. GULF SİGORTA A.Ş.
14. GÜNEŞ SİGORTA A.Ş.
15. HALK SİGORTA A.Ş.
16. HDI SİGORTA A.Ş.
17. KORU SİGORTA A.Ş.
18. LIBERTY SİGORTA A.Ş.
19. MAPFRE SİGORTA A.Ş.
20. NEOVA SİGORTA A.Ş.
21. ORİENT SİGORTA A.Ş.
22. RAY SİGORTA A.Ş.
23. DOĞA SİGORTA A.Ş.
24. SBN SİGORTA A.Ş.
25. SOMPO JAPAN SİGORTA A.Ş.
26. TURKLAND SİGORTA A.Ş.
27. TÜRK NİPPON SİGORTA A.Ş.
28. UNICO SİGORTA A.Ş.
29. ZİRAAT SİGORTA A.Ş.
30. ZÜRICH SİGORTA A.Ş.
31. QUICK SİGORTA A.Ş.

TCIP'S MILESTONES

2000

TCIP was established

- » TCIP was established with the Decree Law no 587 dated September 27, 2000.
- » The first Compulsory Earthquake Insurance policy was issued on September 27, 2000.

2010

Reinsurance Protection

- » TCIP's payment ability for a single damage occurrence has reached TL 5 billion with its own resources and reinsurance protection.
- » With Advertising Campaigns, TCIP has carried out extensive PR activities in order to increase its recognition.

2011

Van Earthquake

- » Following the Kütahya earthquake which occurred on May 19, 2011 with a scale of 5.9, 31 further earthquakes have occurred including the Van earthquakes which occurred on October 23 and November 09, 2011 with scales of 7.2 and 5.6.
- » The rate of insured throughout Turkey in 2011 increased by 12.5%.
- » We have started to make renewal reminder calls.

2012

Introduction of a New Law

- » With the Disaster Insurances Law no 6305, which entered into force on August 18, 2012, TCIP has gained a more concrete legal framework.
- » Existence of Compulsory Earthquake Insurance (ZDS) has started to be checked at all the Electricity and Water administrations during subscription transactions.
- » With the new tariff, building discount has been abolished, and gradual renewal discount and construction year discount have started to be practiced.
- » For both in daily operations and in case of a large-scale disaster, TCIP's call centre Alo TCIP 125 has come into operation.
- » TCIP's website has been renewed.
- » We have started to send SMSs to insured parties during policy issuance and cancelation transactions.
- » We have ensured participation in the Global Earthquake Modelling project.

2013 UAVT Project

- » Starting from March 1, 2013, in all the ZDS policies issued TCIP started the Address Code practice in full compatibility with the National Address Database (UAVT).
- » CHECK POINTS - For the sake of ensuring efficiency in land registry controls, we have ensured integration with the system of the Land Registry. Likewise, we have also ensured integrations with the Electricity and Water Administrations.
- » In addition to CAT-BOND reinsurance opportunities, alternative risk transfer instruments at suitable costs have also started to be used by TCIP.

2014 True Orthophoto Project

- » We have provided significant support to the orthophoto generation project for the entire country which is carried out by the Ministry of Environment and Urbanisation.
- » We created TCIP headquarters Reporting Infrastructure.
- » We have raised awareness by sending TCIP signboards to agencies.
- » With the Renewal Campaign for Agencies, we have aimed to maintain the ZDS portfolio with renewals.

2015 Disaster Management Project

- » Disaster Management Project
- » Transfer of SBM
- » Map-based ARYS disaster support structure has been formed.
- » TCIP has, for the first time in the world, created a mobile application where it can perform the loss adjustment process online through ipad /tablet computer.

2016 TCIP Mobile Project

- » With TCIP Web Portal, a transparent structure has been created whereby damage files can now be opened real-time and followed up through the website.
- » The first damage file has been opened through our new Damage application, and real-time information flow has been provided via mobile.
- » TCIP's new Advertisement and PR agencies have been identified.

2017 Our payment ability is increasing

- » TCIP's payment ability for a single damage occurrence has reached TL 17 billion with its own resources and reinsurance protection.
- » In addition to the gradual renewal discount and construction year discount, a 20% discount has started to be applied in case all residential properties in a building/housing complex are insured by the building/housing complex management.
- » We have started to make renewal reminder calls with Interactive Voice Message (IVR-IVN).
- » We have started the initiatives for the Electronic Archive Project.

What is

TCIP??



35.6%

The pool created with the contribution of the public with the aim of reducing loss after earthquakes



15%

A financial measure to be protected against the financial consequences of an earthquake



14%

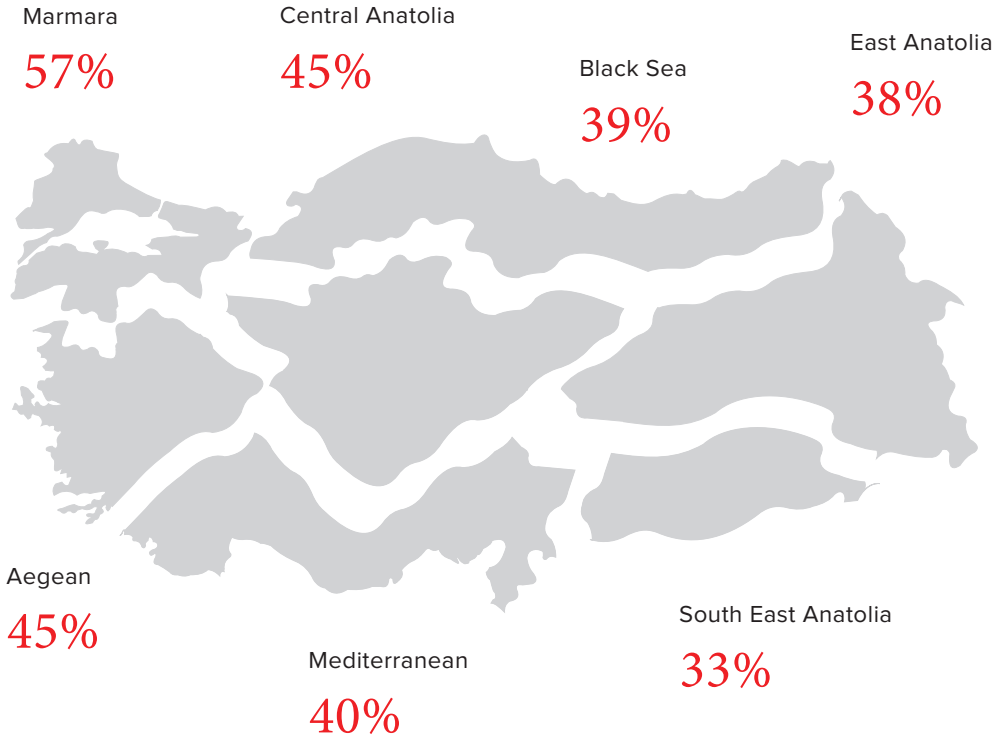
The measure taken in order to provide contribution to the renewal of buildings damaged after an earthquake

SECTION 2

TCIP IN FIGURES

TCIP IN FIGURES

2.1 INSURED RATE BY GEOGRAPHICAL REGIONS



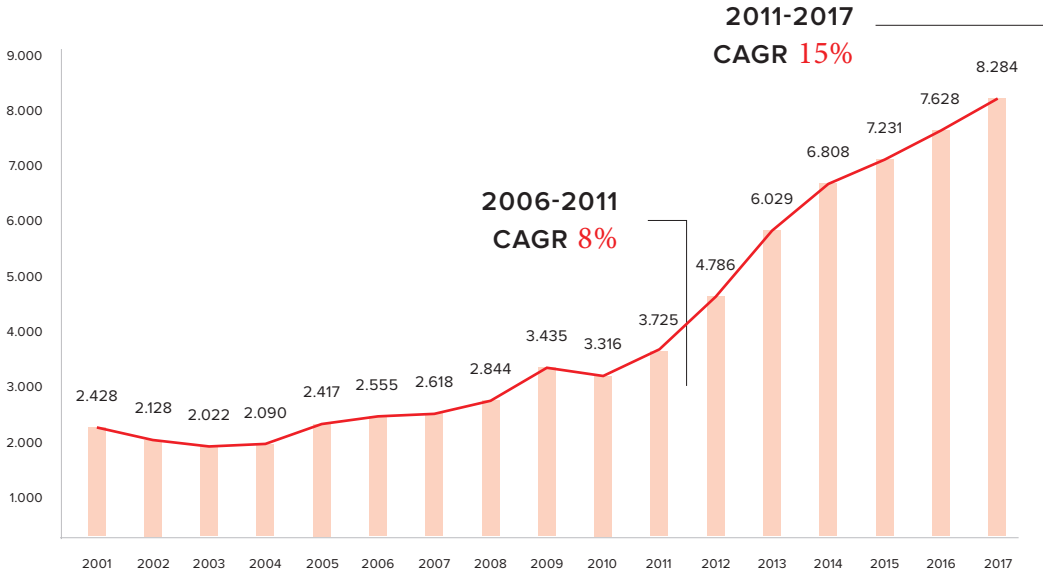
Accross Turkey

47%

Average Annual Premium **TL 123**
Average Security **TL 80 THOUSAND**

Number of Policies **8.3 MILLION**
Total Number of Presidential Properties **18 MILLION**

2.2 COMPULSORY EARTHQUAKE INSURANCE GROWTH



2.3 INSURED RATE IN CERTAIN LARGE PROVINCES

İstanbul

57%

Ankara

54%

Balıkesir

53%

Antalya

50%

Bursa

50%

İzmir

48%

Konya

38%

Trabzon

37%

Adana

34%

Samsun

35%

Diyarbakır

31%

Accross Turkey

47%

2.4 PROVINCES WITH AN INSURED RATE ABOVE 50%

Tekirdağ

71%

Bolu

79%

Yalova

76%

Düzce

89%

Erzincan

59%

Ardahan

62%

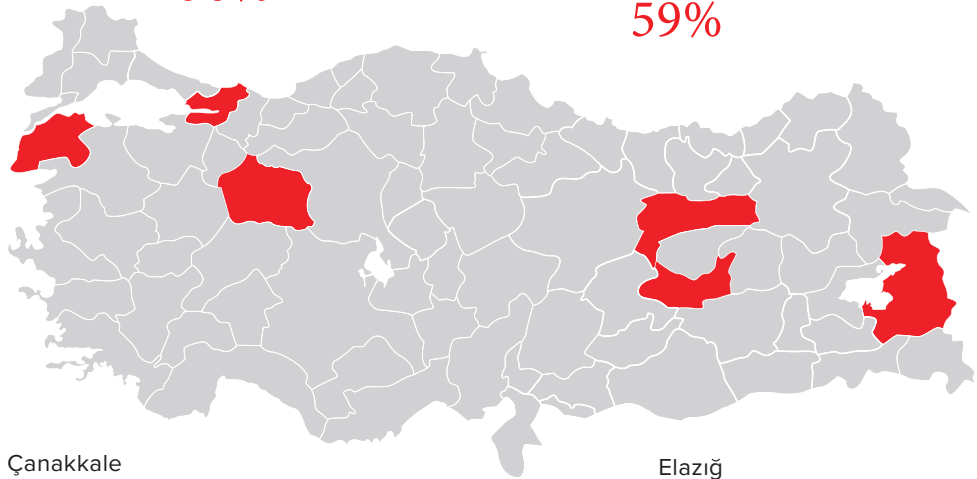
2.5 INSURED RATE IN PROVINCES WHERE AN EARTHQUAKE HAS OCCURRED

Kocaeli

58%

Erzincan

59%



Çanakkale

61%

Kütahya

32%

Elazığ

37%

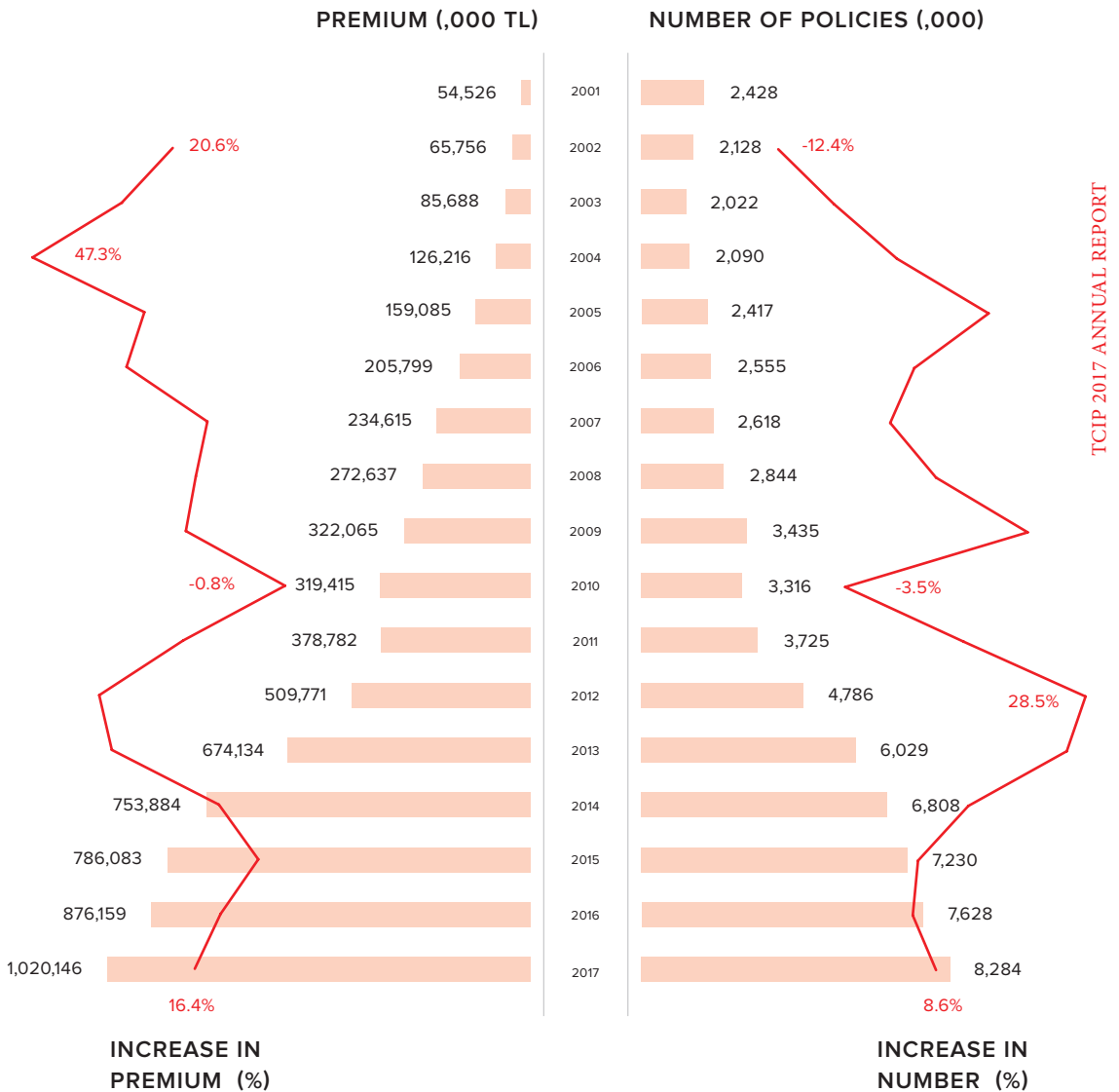
Van

38%

2.6 POLICY ISSUANCE BY YEARS

NUMBER OF COMPULSORY EARTHQUAKE INSURANCE POLICIES BY YEARS

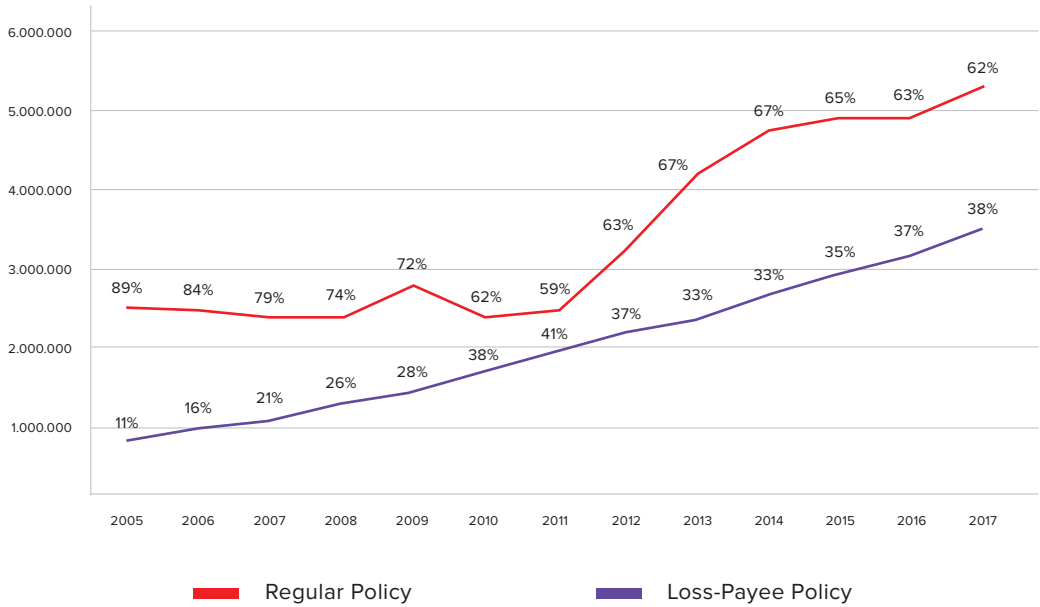
In 2017, the number of policies has increased to 8,3 million, and the rate of residential properties with Compulsory Earthquake Insurance has increased to 47%.



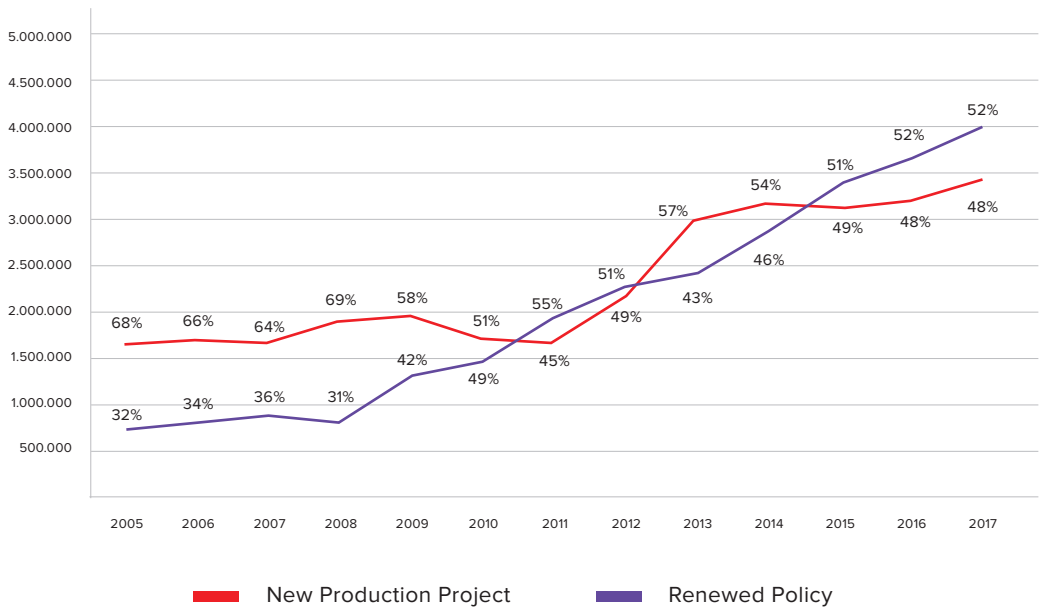
2.7 COMPANY POLICY ISSUANCE

Issuance Breakdown by Companies	2016		2017		
	Number of Policies	Policy Rate (%)	Number of Policies	Policy Rate (%)	Policy Increase (%)
AK SİGORTA A.Ş.	882,793	11.6	914,376	11.0	3.6
ALLIANZ SİGORTA A.Ş.	718,954	9.4	800,361	9.7	11.3
ANADOLU SİGORTA A.Ş.	863,313	11.3	827,280	10.0	-
ANKARA SİGORTA A.Ş.	61,206	0.8	67,218	0.8	9.8
AXA SİGORTA A.Ş.	698,648	9.2	652,515	7.9	-
BEREKET SİGORTA	115,652	2	95,614	1	-
DOĞA SİGORTA A.Ş.	74,856	1.0	181,105	2.19	-
DUBAI STARR SİGORTA A.Ş.	9,325	0.1	7,231	0.1	-
ERGO SİGORTA A.Ş.	294,016	3.9	285,499	3.4	-
ETHİCA SİGORTA A.Ş.	16,257	0.2	115,222	1.4	608.8
EUREKO SİGORTA A.Ş.	358,602	4.7	407,147	4.9	13.5
GENERALİ SİGORTA A.Ş.	100,569	1.3	109,079	1.3	8.5
GROUPAMA SİGORTA A.Ş.	231,694	3.0	202,672	2.4	-
GULF SİGORTA A.Ş.	42,651	0.6	33,982	0	-
GÜNEŞ SİGORTA A.Ş.	507,154	6.7	530,224	6.4	4.5
HALK SİGORTA A.Ş.	394,818	5.2	468,728	5.7	18.7
HDI SİGORTA A.Ş.	316,092	4.2	347,201	4.2	9.8
KORU SİGORTA A.Ş.	36,086	0.5	36,761	0.4	1.9
LIBERTY SİGORTA A.Ş.	86,874	1.1	89,319	1.1	2.8
MAPFRE SİGORTA A.Ş.	170,631	2.2	196,364	2.4	15.1
NEOVA SİGORTA A.Ş.	197,405	2.6	262,912	3.2	33.2
ORIENT SİGORTA A.Ş.	13,247	0.2	18,916	0.23	42.8
QUICK SİGORTA A.Ş.	-	-	17,270	0.2	-
RAY SİGORTA A.Ş.	111,458	1.5	123,715	1.5	11.0
SBN SİGORTA A.Ş.	48,371	0.6	43,908	0.5	-
SOMPO JAPAN SİGORTA A.Ş.	212,859	2.8	216,850	2.6	1.9
TURKLAND SİGORTA A.Ş.	12,058	0.2	16,216	0.2	34.5
TÜRK NIPPON SİGORTA A.Ş.	41,082	0.5	45,905	0.6	11.7
UNICO SİGORTA A.Ş.	118,442	1.6	105,595	1.3	-
ZİRAAT SİGORTA A.Ş.	677,218	8.9	872,543	10.5	28.8
ZURICH SİGORTA A.Ş.	203,992	2.7	187,117	2.3	-
TOTAL	7,616,323	100	8,284,292	100	8.6

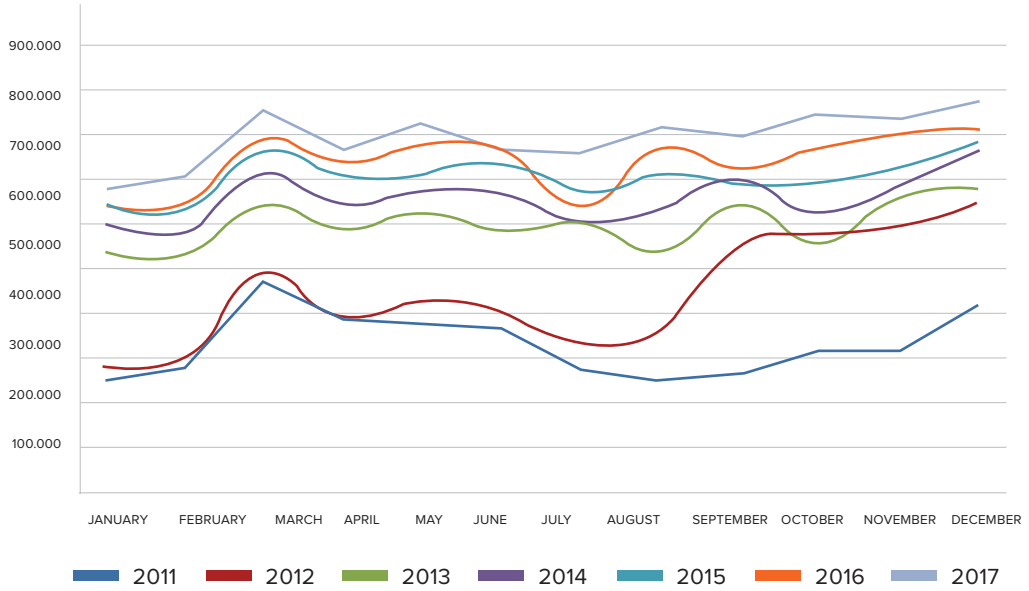
2.8 NUMBER OF LOSS-PAYEE POLICIES



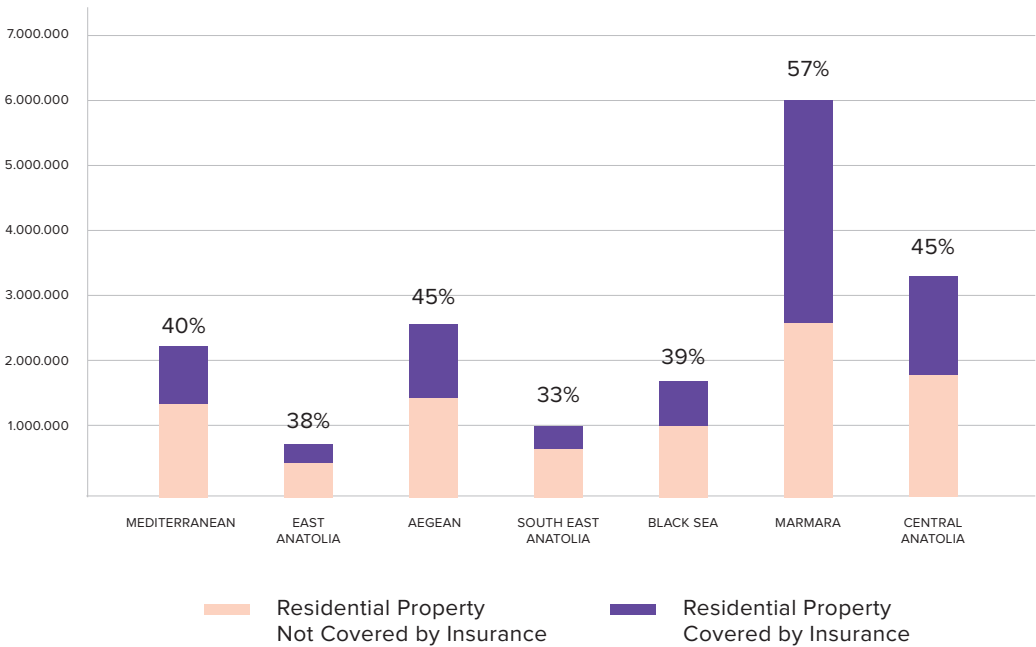
2.9 NEW POLICY & RENEWED POLICY NUMBERS



2.10 POLICY ISSUANCE BY MONTHS



2.11 INSURED RATES BY REGIONS



2.12 INSURED RATES BY PROVINCES

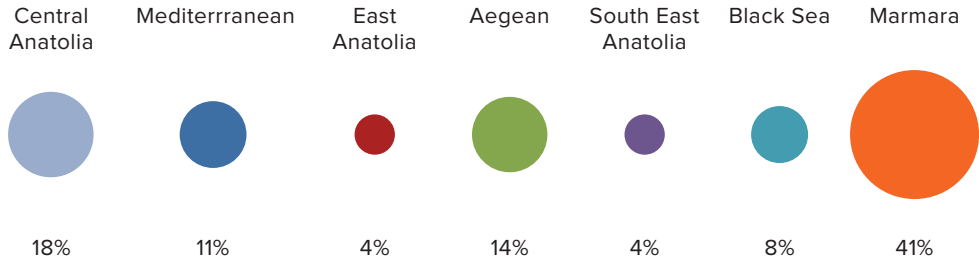
There are approximately 17,6 million residential properties in our country which fall within the scope of Compulsory Earthquake Insurance.

PROVINCE	TOTAL NUMBER OF RESIDENTIAL PROPERTIES	INSURED RESIDENTIAL PROPERTIES	TOTAL PREMIUM	INSURED RATE %
ADANA	448,380	153,318	19,361,364	34.2%
ADIYAMAN	78,760	25,709	3,514,141	32.6%
AFYONKARAHİSAR	170,720	48,229	6,154,099	28.3%
AKSARAY	90,530	31,724	1,484,558	35.0%
AMASYA	73,980	28,816	4,529,681	39.0%
ANKARA	1,525,130	818,242	46,379,883	53.7%
ANTALYA	610,140	302,696	32,306,711	49.6%
ARDAHAN	7,610	4,748	542,626	62.4%
ARTVİN	32,060	14,248	878,830	44.4%
AYDIN	284,970	145,718	22,882,187	51.1%
AĞRI	41,660	12,229	1,417,937	29.4%
BALIKESİR	335,710	178,893	26,643,538	53.3%
BARTIN	30,620	15,933	2,298,186	52.0%
BATMAN	59,430	10,789	1,556,476	18.2%
BAYBURT	12,620	3,159	260,570	25.0%
BOLU	58,660	46,040	7,537,313	78.5%
BURDUR	63,030	17,514	2,848,628	27.8%
BURSA	670,750	330,989	55,479,779	49.3%
BİLECİK	51,200	22,753	3,235,863	44.4%
BİNGÖL	30,780	20,373	3,685,662	66.2%
BİTLİS	38,150	10,782	1,619,611	28.3%
DENİZLİ	251,500	96,699	16,892,760	38.4%
DÜZCE	48,080	42,656	6,920,080	88.7%

DİYARBAKIR	211,240	63,989	9,375,409	30.3%
EDİRNE	100,430	52,887	3,933,037	52.7%
ELAZIĞ	123,310	45,525	6,353,031	36.9%
ERZURUM	118,900	38,552	5,240,949	32.4%
ERZİNCAN	45,870	26,863	4,574,095	58.6%
ESKİŞEHİR	233,240	134,124	14,487,849	57.5%
GAZİANTEP	290,980	126,419	9,228,477	43.4%
GÜMÜŞHANE	27,140	6,915	648,895	25.5%
GİRESUN	101,750	37,219	2,219,384	36.6%
HAKKARİ	22,800	1,890	342,648	8.3%
HATAY	274,450	99,936	16,538,504	36.4%
ISPARTA	121,580	33,029	5,028,114	27.2%
IĞDIR	20,850	12,799	1,287,471	61.4%
KAHRAMANMARAŞ	188,050	61,181	8,224,724	32.5%
KARABÜK	56,630	25,233	3,663,197	44.6%
KARAMAN	56,810	22,907	1,024,614	40.3%
KARS	33,050	13,493	1,546,102	40.8%
KASTAMONU	73,710	30,248	3,871,571	41.0%
KAYSERİ	335,870	123,145	9,348,791	36.7%
KIRIKKALE	77,710	20,617	2,930,405	26.5%
KIRKLARELİ	87,430	44,938	2,376,531	51.4%
KIRŞEHİR	60,690	21,979	3,289,499	36.2%
KOCAELİ	421,370	244,074	40,365,479	57.9%
KONYA	512,870	192,282	12,017,354	37.5%
KÜTAHYA	155,120	49,523	6,350,504	31.9%
KİLİS	21,340	9,118	612,459	42.7%
MALATYA	165,690	62,985	9,457,772	38.0%
MANİSA	309,460	128,902	19,711,735	41.7%
MARDİN	91,660	26,017	1,974,427	28.4%
MERSİN	440,730	189,642	13,405,045	43.0%
MUĞLA	241,650	143,883	22,149,519	59.5%
MUŞ	31,410	5,584	906,802	17.8%
NEVŞEHİR	74,640	24,650	1,752,911	33.0%
NİĞDE	89,250	26,554	1,406,394	29.8%
ORDU	170,280	62,740	4,981,099	36.8%
OSMANİYE	89,670	29,497	4,707,625	32.9%

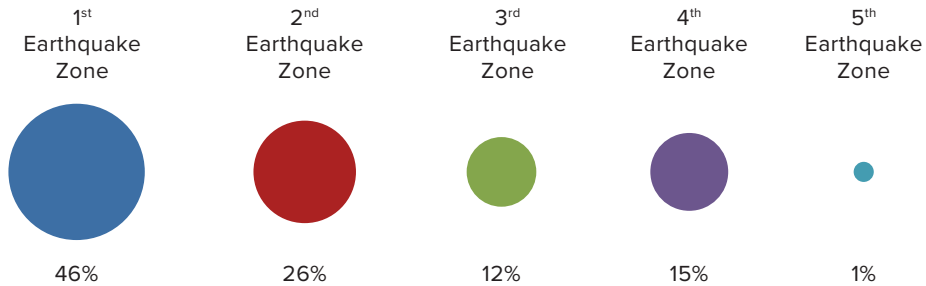
RİZE	74,910	21,154	1,159,616	28.2%
SAKARYA	194,190	138,373	22,045,563	71.3%
SAMSUN	287,770	99,360	11,878,325	34.5%
SİNOP	44,090	18,732	1,311,015	42.5%
SİVAS	130,140	47,579	3,606,024	36.6%
SIİRT	33,410	7,989	1,287,950	23.9%
TEKİRDAĞ	264,840	188,001	16,768,682	71.0%
TOKAT	127,320	35,925	5,634,207	28.2%
TRABZON	208,190	78,400	4,341,724	37.7%
TUNCELİ	16,220	6,267	803,991	38.6%
UŞAK	82,710	29,356	3,713,345	35.5%
VAN	80,720	30,803	4,492,288	38.2%
YALOVA	79,590	60,565	9,735,959	76.1%
YOZGAT	99,860	28,848	2,275,494	28.9%
ZONGULDAK	137,510	43,168	5,434,548	31.4%
ÇANAKKALE	126,590	77,356	11,610,173	61.1%
ÇANKIRI	45,760	16,600	2,395,903	36.3%
ÇORUM	128,460	46,449	5,602,906	36.2%
İSTANBUL	3,682,450	2,090,536	289,734,457	56.8%
İZMİR	1,120,220	537,676	87,812,840	48.0%
ŞANLIURFA	171,420	57,072	4,419,202	33.3%
ŞIRNAK	33,220	2,487	318,484	7.5%
TOTAL	17,661,690	8,284,292	1,020,145,600	46.9%

2.13 POLICY BREAKDOWN BY REGIONS



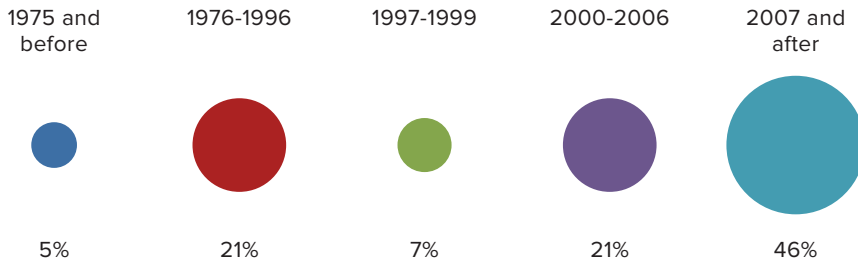
GEOGRAPHICAL REGION	NUMBER OF POLICIES	NUMBER OF POLICIES %	TOTAL PREMIUM	TOTAL PREMIUM %
Mediterranean	886,813	%10,7	102,420,714	10.0%
East Anatolia	292,893	%3,5	42,270,984	4.1%
Aegean	1,179,986	%14,2	185,666,990	18.2%
South East Anatolia	329,589	%4,0	32,287,027	3.2%
Black Sea	656,395	%7,9	73,171,147	7.2%
Marmara	3,429,365	%41,4	481,929,059	47.2%
Central Anatolia	1,509,251	%18,2	102,399,679	10.0%
GRAND TOTAL	8,284,292	%100,0	1,020,145,600	100.0%

2.14 POLICY BREAKDOWN BY RISK ZONES



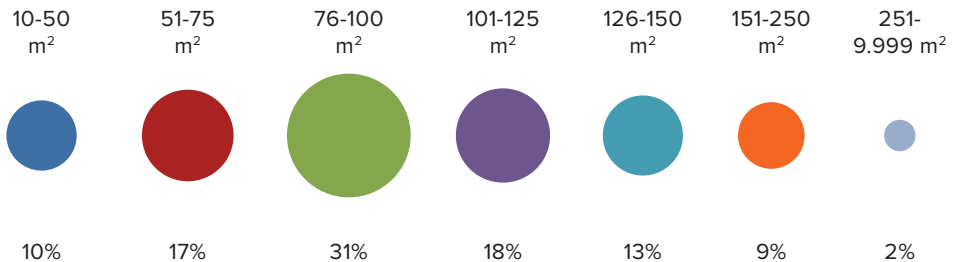
NAME OF EARTHQUAKE ZONE	NUMBER OF POLICIES	NUMBER OF POLICIES %	TOTAL PREMIUM	TOTAL PREMIUM %
1. Earthquake Zone	3,792,029	45.8%	615,706,283	60.4%
2. Earthquake Zone	2,146,416	25.9%	257,900,074	25.3%
3. Earthquake Zone	968,165	11.7%	72,391,123	7.1%
4. Earthquake Zone	1,288,704	15.6%	70,260,511	6.9%
5. Earthquake Zone	88,978	1.1%	3,887,610	0.4%
GRAND TOTAL	8,284,292	100.0%	1,020,145,600	100.0%

2.15 POLICY BREAKDOWN BY BUILDING CONSTRUCTION YEAR



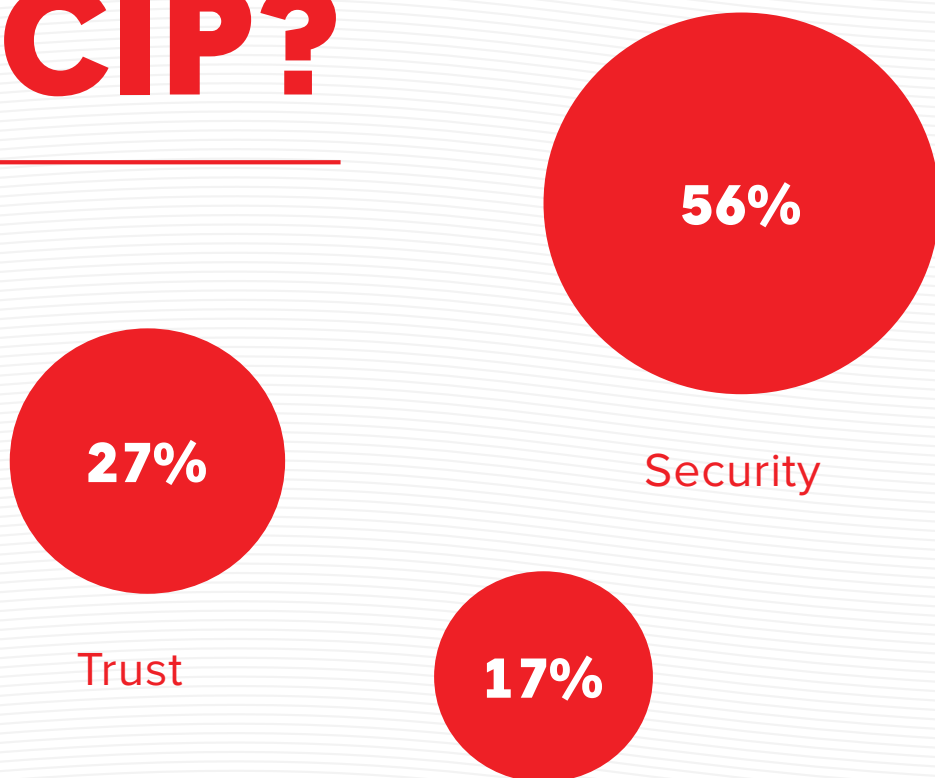
CONSTRUCTION YEAR	NUMBER OF POLICIES	NUMBER OF POLICIES %	TOTAL PREMIUM	TOTAL PREMIUM %
1975 and Before	404,178	4.9%	45,283,576	4.4%
1976 - 1996	1,775,277	21.4%	226,406,082	22.2%
1997 - 1999	598,265	7.2%	76,893,161	7.5%
2000 - 2006	1,707,604	20.6%	215,775,384	21.2%
2007 and After	3,798,968	45.9%	455,787,397	44.7%
GRAND TOTAL	8,284,292	100.0%	1,020,145,600	100.0%

2.16 POLICY BREAKDOWN BY BUILDING SURFACE AREA



BUILDING SURFACE AREA (GROUPED)	NUMBER OF POLICIES	NUMBER OF POLICIES %	TOTAL PREMIUM	TOTAL PREMIUM %
10-50 square meters	846,689	10.2%	61,390,920	6.0%
51-75 square meters	1,438,805	17.4%	127,250,163	12.5%
76-100 square meters	2,538,855	30.6%	286,102,221	28.0%
101-125 square meters	1,543,090	18.6%	207,583,579	20.3%
126-150 square meters	1,054,577	12.7%	164,664,377	16.1%
151-250 square meters	716,874	8.7%	139,601,032	13.7%
251-9999 square meters	145,402	1.8%	33,553,309	3.3%
GRAND TOTAL	8,284,292	100.0%	1,020,145,600	100.0%

What are the values that best describe TCIP?



SECTION 3

TARIFF AND INSURANCE PRACTICES

TARIFF AND INSURANCE PRACTICES

Opportunity of Renewal Discount of up to 20% and Building Construction Year Discount of 10%

Insured parties which renew their insurances regularly and in time benefit from special discounts and pay lower premiums.

INSURANCE TARIFF AND PREMIUM CALCULATION

Premium to be paid is calculated by adding TL 10 to the amount which is calculated by applying the below tariff according to the determined insurance price, earthquake zone and building type. For risks within Istanbul, this amount is applied as TL 15. The minimum premium amount is, in any case, TL 75, TL 65, TL 55, TL 45 and TL 35 according to the earthquake risk zone, from the first zone to the fifth zone respectively.

With coverage of up to 170 thousand TL it provides to residential properties, Compulsory Earthquake Insurance prevents efforts and savings from melting away.*

*This amount is determined by calculating the reconstruction price of the relevant residential property.

Earthquake Tariff Prices According to Building Type by Zones (‰)

Building Type	I. Zone	II. Zone	III. Zone	IV. Zone	V. Zone
A - Steel, reinforced concrete, framed buildings	2.20	1.55	0.83	0.55	0.44
B - Masonry buildings	3.85	2.75	1.43	0.60	0.50
C - Other Buildings	5.50	3.53	1.76	0.78	0.58

Unit Square Meter Costs by Building Type

Year 2017

A - Steel, Reinforced Concrete, Framed Buildings	TL 800
B - Masonry Buildings	TL 575
C - Other Buildings	TL 295

Insurance price and premium are calculated as follows:

Insurance Price = Gross surface area of the residential property (m²) x unit square meter cost by Building Type (TL)

The insurance price of a residential property for which ZDS is placed cannot exceed TL 170,000 without differentiating based on earthquake zone and building type.

Premium = (Insurance Price TL x Tariff price (‰)) + Fixed Price (TL 10 or TL 15)

Discounts are applied before adding the fixed price.

RENEWAL AND CONSTRUCTION YEAR DISCOUNT

- » In case the insurance is renewed within 30 days at the end of the policy period, a discount of 10% is applied for the first, second and third renewals for the renewed policy at the tariff prices, and a discount of 20% is applied for renewals after the third renewal.
- » For buildings with a construction license date of 2007 or later, a construction year discount of 10% is applied at the above tariff price.

DEDUCTIBLES AND INSURANCE PERIOD

At each damage event, a deductible of 2% of the insurance price is applied. The Pool is responsible for the amount of the damage exceeding the deductible amount calculated in this way. With regards to the deductible application, each 72-hour period shall be deemed as one damage event. The insurance period is determined as one year. At the end of this period, the insurance is required to be renewed.

COMMISSION RATES

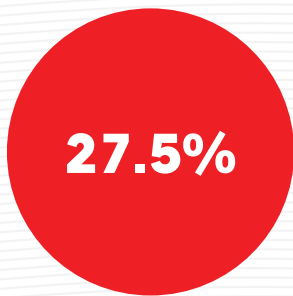
The insurance companies which are authorized to make ZDS contracts for and on behalf of the Pool are paid a commission based on the premium amount of the ZDS placed by themselves or their agencies, at a rate of 12.5% for risks in Istanbul and at a rate of 17.5% for risks in other provinces. Being limited to renewal policies, these rates are applied as 15% and 20% respectively.

However, the minimum commission to be paid to the authorized insurance company as of each insurance contract is TL 10, and it is TL 15 for renewed policies. TL 3 of the minimum commission paid belongs to the insurance company, and TL 7 of it belongs to the agency, and for renewed policies, TL 3 of it belongs to the insurance company and TL 12 of it belongs to the agency. In case the commission to be paid to the insurance company under the rates specified in paragraph one exceeds TL 10, and TL 15 for renewed policies, the commission to be given to the agency is freely determined between the insurance company and the agency, on the condition that it shall not be lower than the minimum amount.

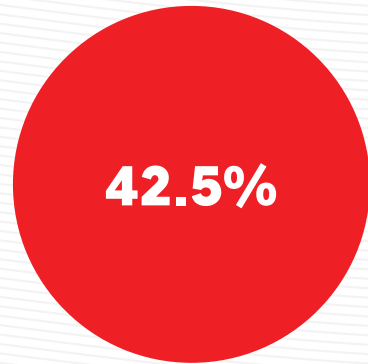
VOLUNTARY INSURANCE

In order that a voluntary residential property insurance policy can be issued for independent sections and buildings that fall within the scope of ZDS in a way to include the earthquake coverage, ZDS is required to have been placed for these buildings. However, in case the value of the independent sections and buildings for which a ZDS has been placed is higher than the insurance price which is calculated in accordance with the principles specified in the tariff, a voluntary earthquake insurance can be placed by the insurance companies for the portion exceeding the aforementioned insurance price, on the condition that a ZDS has been placed.

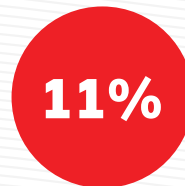
What is the concept that best describes TCIP?



Insurance



Security



Trust

SECTION 4

REINSURANCE PROTECTION AND CATASTROPHE BOND

REINSURANCE PROTECTION AND CATASTROPHE BOND

Euro 2,5 Billion

The reinsurance protection of TCIP was renewed as of November 1, 2017 in accordance with the properties of the existing portfolio, and an excess of loss reinsurance protection has been formed, which provides a coverage of Euro 2,5 billion.

Important aspects that TCIP has taken into consideration since its establishment in determination of its damage payment ability and reinsurance program are as follows:

- » To allow development of the Pool's resources,
- » To create a qualified and reliable reinsurers panel,
- » To ensure coverage diversity, and
- » To soundly determine the damage burden to be brought about by the portfolio and to take the necessary protections.

In 2017, the Pool's endeavours to provide coverage diversity and cost advantage have been given priority and intensified:

- » The limit of structured capital markets reinsurance capacity has been increased,
- » The catastrophe bond capacity under Bosphorus Ltd. is ongoing.
- » Reinsurance support has been provided by the State.

Reinsurance Protection has been Renewed

The reinsurance protection of the Pool was renewed as of November 1, 2017 by taking into consideration the cost increases to occur after earthquake (PLA) and in accordance with the properties of the existing portfolio, and an excess of loss reinsurance protection has been provided, which provides a coverage of Euro 2,5 billion consisting of six tranches and which also includes reinsurance solutions restructured by capital markets.

In the period from 2017 to 2018, an excess of loss reinsurance support of Euro 215 billion has been granted by the State within the scope of the traditional reinsurance protection.

4.1 CATASTROPHE BOND

The Pool's purpose of issuing catastrophe bonds is to reduce dependency on traditional reinsurance markets to an extent, in satisfying the damage protection need increasing as a result of the rapidly- growing portfolio, to satisfy the alternative protection need which will diversify the damage payment capacity by market, product, exchange rate and region, and to provide support to the insurance sector through use by TCIP lesser of the capacity allocated for Turkey's earthquake risk in traditional reinsurance market. USD 400 million

TL 17 BILLION
TCIP's total damage
payment ability consists
of the funds and
reinsurance capacity of
the Pool, and it is at a
level of approximately
TL 17 billion.

Bosphorus 1 catastrophe bond, which is shown in the world's ILS market as a great success model and the term of which was ended in April 2016, has been the bond with the lowest cost that has ever been issued to date.

The fact that Turkish earthquake risk has entered this market, which is a first in addition to US storm/earthquake, European flood/storm and Japan earthquake risks which are more predominant compared to CAT bond market, has been welcomed by investors with pleasure, and although it was the first parametric catastrophe bond practice of our Pool and our country, it has won the most recommended and best reinsurance contract awards of the year.

You may find the details of the awards and the news features in the international arena in relation to Bosphorus 1 Re on the below websites.

- » Bosphorus catastrophe bond a real success story, by Artemis on May 1, 2013
<http://www.artemis.bm/blog/2013/05/01/bosphorus-catastrophe-bond-a-real-success-story-says-turkish-cat-pool/>
- » Bosphorus Re cat bond upsized to \$400m 30 April 2013 | By Newsdesk
<http://www.globalreinsurance.com/story.aspx?source=grbreakingnews&storycode=1402277/>
- » Turkish catastrophe pool benefits from completion of Bosphorus 1 Re cat bond 30 April 2013 | By BusinessInsurance
<http://www.businessinsurance.com/article/20130430/NEWS09/130439992#>
- » Bosphorus 1 Re may prove game-changer for ILS 25-04-2013 By Bermuda Re
<http://www.bermudareinsurancemagazine.com/news/bosphorus-1-re-may-prove-game-changer-for-ils>

- » Turkish cat pool's Bosphorus 1 Re completes 01-05-2013 By BusinessInsurance
<http://www.intelligentinsurer.com/news/turkish-cat-pool-s-bosphorus-1-re-completes>

- » Bosphorus 1 Re unveils Turkish quake cat bond 02 April 2013 By Intelligent Insurer
<http://www.businessinsurance.com/article/20130402/NEWS09/130409976>

In addition, a supplemental capacity has been created with Cat Bond/Catastrophe Bond (Bosphorus Ltd.), which is valid until 2018 and which has provided a supplemental capacity of USD 100 million for Istanbul.

The Pool's total damage payment ability consists of the funds and reinsurance capacity of the Pool, and it is at a level of approximately TL 17 billion. The Pool's obligations arising from the policies are regularly monitored, and by taking into consideration the results of reliable earthquake damage models, the needed reinsurance protection limits are determined.

4.2 REINSURANCE PRACTICE STRATEGY

Premiums paid for reinsurance protection are the most important cash outflow item of TCIP. In order to achieve the targeted cost and investment structures, the following practices are carried out annually, and consequently, optimum placements are ensured on an annual basis.

- » DFA Analyses
- » Scenario-based Analyses
- » Risk Modelling
- » SLA-Service Level Agreements
- » Alternative Reinsurance Applications (ART)
- » Creation of Brokers Panel
- » Investment Strategies
- » Participation by the Treasury
- » Roadshow

Due to the increased number of policies, the Pool's damage payment capacity need increases. For the future, this growth trend is predicted to continue. Part of the Pool's increased capacity need is planned to be met from traditional reinsurance markets. In addition to the reinsurance programs structured in accordance with the needs of upcoming periods, TCIP's researches are ongoing for making use of other products in capital markets, catastrophe bonds being in the first place. The Pool exercises due care for diversity and differentiation of the products and instruments constituting the damage payment capacity, by zones, markets, exchange rates and products.

We are exercising due care to creating competition among reinsurers, including into the program alternative risk transfer instruments, and fulfilling the duty of providing support to the insurance sector by exercising due care not to exhaust the capacities (through use by TCIP lesser of the capacity) reserved/allocated for Turkey's earthquake risk in the traditional reinsurance market during placements.

Efforts Are Ongoing in Alternative Reinsurance Markets

Works carried out in alternative reinsurance markets in order to provide productions such as Catastrophe Bond are ongoing. Structured Reinsurance, "Spread Loss", "Top & Drop", "Exchange Rate Protection and Spread Loss combined structuring", "Annual Aggregate XL", "Sidecar" and similar solutions shall be reviewed throughout the period, and where appropriate, they shall be used and included in the placement for increasing the negotiating power and meeting the Pool's capacity need.

4.3 TARSİM

With the decision of the Council of Ministers

dated 11/09/2015, "The Decision on Provision of Reinsurance Support by the Turkish Natural Catastrophe Insurance Pool to the Risks Assumed by Agriculture Insurances" was put into force.

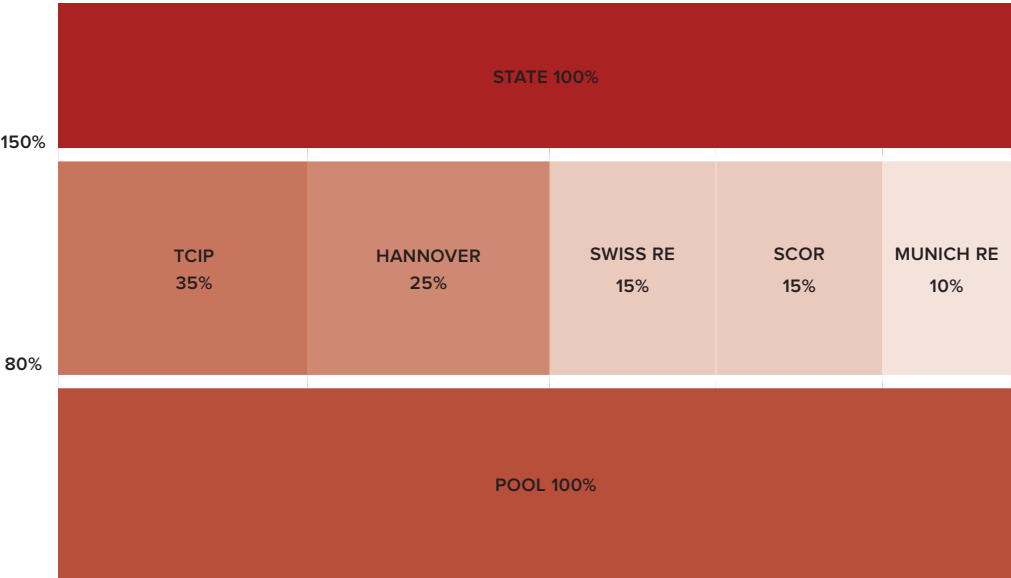
"In case sufficient protection cannot be provided from the national and international markets for the risks assumed by the Agriculture Insurances Pool under the Agriculture Insurances Law no 5363 dated 14/06/2005; on the condition of being limited to the risks specified in article 7, paragraph two of the Disaster Insurances Law no 6305 dated 09/05/2012, the Turkish Natural Catastrophe Insurance Pool (the Pool) may give reinsurance support with the approval of the Minister to whom the Undersecretariat of Treasury reports, of up to maximum 10% of the retention margin determined in accordance with the Pool's risk and reinsurance plan, in return for a price which is suitable for the Agriculture Insurances Pool. The Minister is authorized to increase this rate up to 50%. The type, conditions and limits of the support to be provided by the Pool shall be determined by the Undersecretariat of Treasury, by observing the insurance principles. In order for fulfilling the reinsurance needs, the Pool and the Agriculture Insurances Pool may enter into cooperation under the principles to be determined by the Undersecretariat of Treasury."

In this context, officials of the "Agriculture Insurances Pool" have taken the first steps of the reinsurance cooperation between the Pools, by making the necessary negotiations and providing a reinsurance support of TL 212,156,200 to the "Agriculture Insurances Pool" of the Turkish Natural Catastrophe Insurance Pool. The relevant security is limited to the natural disaster risks within the scope of the herbal products insurance, greenhouse insurance and drought, and it shall come into play in case the damage premium rate exceeds a particular percent.

TCIP REINSURANCE STRUCTURE



AGRICULTURAL INSURANCE POOL REINSURANCE SUPPORT



What are the 3 benefits provided by TCIP?

39%

Financial security
against the
earthquake risk

31%

It compensates
earthquake
damages to
residential
properties

30%

It provides security for
the compensation of the
losses due to earthquake

SECTION 5

FUND MANAGEMENT

FUND MANAGEMENT

The Pool's funds have been directly managed in 2017 as well, which was the case in the previous periods, by TCIP's Technical Operator pursuant to the relevant articles of the below-mentioned legislation,;

1. The General Communiqué of Public Treasurership of the Prime Ministry's Undersecretariat of Treasury and the Ministry of Finance [Official Gazette Date: 08/12/2016 Thursday, Issue: Issue No.: 29912.
 2. Annex-1 to the REGULATION ON THE WORKING PROCEDURES AND PRINCIPLES OF THE BOARD OF DIRECTORS OF TURKISH NATURAL CATASTROPHE INSURANCE POOL (TCIP) [Official Gazette Date: 15/08/2012 Wednesday, Issue: 28385,
- and within the scope of the principles of
1. "Distribution of risk"
 2. "Protection of asset".

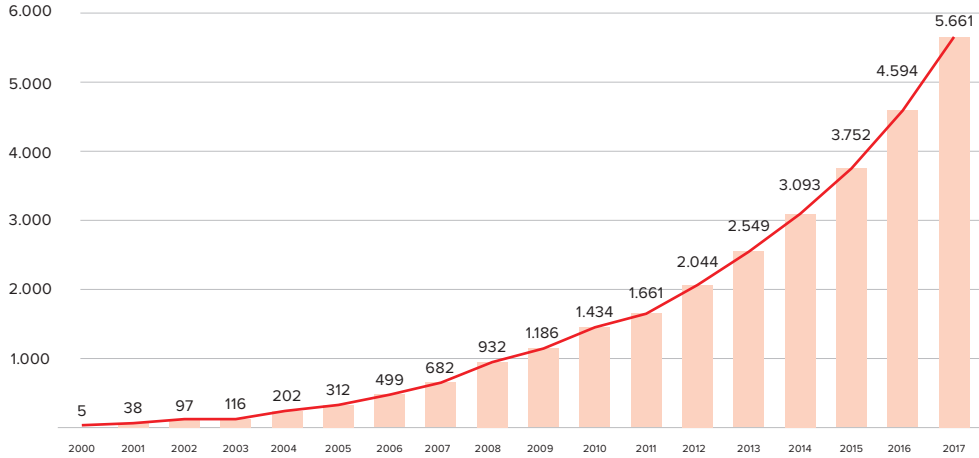
Total investment portfolio value, by increasing 23% compared to the previous year, reached TL 5,661,382,922.63 as of 31.12.2017.

In investment income (financial income) improvement, the contribution in the total portfolio value compared to the beginning of the previous year has been + TL 541.3 million net increase (except for policy collections). While this shows a net proceed of 11.24% since the beginning of the year, the gain of the comparison criterion (KYD-BIST NET DEPOSITS) corresponds to 8.97%. (The Difference; +2.70%). As of the end of the year, while TRY 4,90 billion of a portion of TCIP's financial portfolio is being managed by TCIP, TRY 0,75 billion of a portion of it is being managed by 7 portfolio management companies.

As of 31.12.2017,
Total Value of
TCIP's Financial
Portfolio has
increased to
TL 5,66 billion.

Year	Portfolio V. TL	Deposit	%	SGMK	%	Other	%
2000	5,215,999	1,633,640	31	3,569,688	68	12,671	0
2001	38,222,985	32,080,730	84	6,030,809	16	111,446	0
2002	97,331,470	70,079,665	72	26,252,898	27	998,907	1
2003	116,025,753	63,373,633	55	51,084,849	44	1,567,271	1
2004	202,232,650	80,940,497	40	115,483,686	57	5,808,467	3
2005	311,559,315	206,235,410	66	104,244,548	33	1,079,358	0
2006	499,463,532	409,962,055	82	89,500,583	18	893	0
2007	681,508,659	579,947,288	85	98,265,366	14	3,296,005	0
2008	931,934,659	842,084,206	90	84,764,350	9	5,086,103	1
2009	1,186,378,964	944,737,214	80	237,600,393	20	4,041,356	0
2010	1,433,659,436	1,179,029,221	82	250,382,589	17	4,247,626	0
2011	1,660,681,919	1,552,648,290	93	96,291,663	6	11,741,967	1
2012	2,044,378,962	1,893,441,852	93	81,516,910	4	69,420,198	3
2013	2,548,632,255	2,322,418,804	91	183,633,422	7	42,580,029	2
2014	3,092,692,979	2,031,866,840	66	633,645,708	20	427,180,431	14
2015	3,751,625,078	3,077,840,374	82	668,974,812	18	4,809,892	0
2016	4,593,502,668	2,025,336,271	44	1,360,355,203	30	1,207,811,194	26
2017	5,661,382,923	76,472,889	1	4,606,910,025	81	978,000,008	17

PORTFOLIO V. (MILLION TL)



General fund management philosophy of TCIP is based on the following principles:

- » As was the case in the previous years, the basic elements are first of all to ensure the security of capital, liquidity and high income,
- » By abiding by the risk levels determined with correct interpretation of information, correct timing and efficient decision-taking processes, to reach a stable and permanent growth in fund size,
- » With an innovative and pioneering approach, to develop income-increasing new products in accordance with the economic conjuncture and the Pool's culture and structure.

COMMITTEES IN RELATION TO FUND MANAGEMENT

The following are among the primary duties of the Investment Steering Committee;

- » To take the managerial decisions needed,

depending upon the developments occurred within the year,

- » To steer the Investment Committee which monitors and evaluates the investment process and its operation weekly.

The "Investment Committee" which was established in 2011 for more effective and more active management of the growing fund, and the "Investment Steering Committee" which is established as a superstructure have continued their practices in the year 2017 as well.

Duties of the Investment Committee are;

- » Preparation of Annual "Investment Plan",
- » Purchase and sales of the investment instruments which are in compliance with the investment plan approved by the Investment Steering Committee and the Board of Directors,
- » Foreign exchange buying and selling,
- » Participating in DIBS tenders,
- » Monitoring of the markets in relation

to reverse repo and all the similar transactions,

- » Performance of all the negotiations with other financial organisations and of all the operational transactions.

In addition, performance of the Technical Operator and portfolio management companies are evaluated according to the comparison criterion specified in the annual investment plan. Data of the portfolio management companies, comparison criterion change requests and strategy changes are evaluated by this committee.

The duty of the Investment Steering Committee is to take the managerial decisions needed in implementation of the annual Investment Plan depending upon the changes occurred within the year, and to steer the Investment Committee which monitors and evaluates the investment process and its operation weekly.

INVESTMENT STRATEGIES AIMED AT PROTECTING HIGH PORTFOLIO VALUE

The Investment Committee which convenes weekly, monitors the monetary markets closely, and endeavours to generate income through utilization of the Pool's funds within acceptable risk limits by creating investment type and due date diversity.

Within the scope of the Investment Strategy determined at the beginning of 2017, with the primary focus in breakdown of the fund according to investment instrument types again being the time deposits as the most liquid assets according to the market conditions; State bonds, reverse repo, bank financing bonds, monetary market placements and foreign exchange time deposits within the liability limits have appeared in the portfolio.

INTEGRATION OF INFINA ANALYTICS BI SOFTWARE IN INVESTMENT MANAGEMENT

Analytics BI, which is a practical and living business intelligence (converting raw data into information) application in assets and income analysis, has been privatized based on accumulation of TCIP's Fund Management.

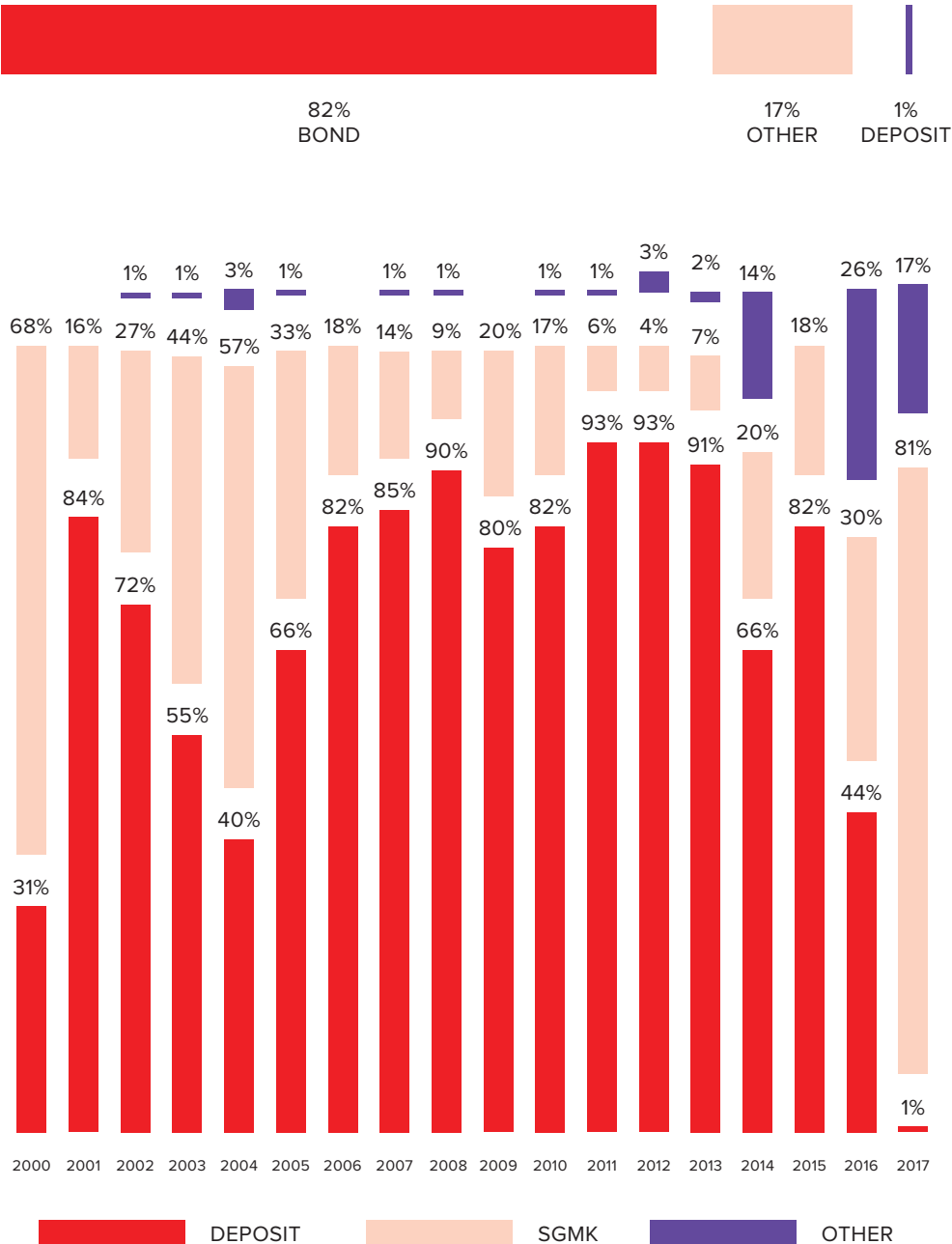
While the asset breakdown of the portfolio and financial indicators such as income and profit/loss analyses from different points of view can be followed up in real-time and as up-to-date, all financial indicators are monitored and reported by graphics.

DEVELOPMENT OF THE SAP TREASURY RISK MANAGEMENT (TRM) MODULE IN FUND MANAGEMENT

With introduction of the SAP system in TCIP's accounting processes in 2015, the SAP-TRM module in line with this development has also been integrated into business processes. Thus, significant time and management gain and detailed and fast analysis opportunities have been ensured on the financial reporting side. In 2017, developments have been prioritized for more refined operation of this system.

AUTOMATION DEVELOPMENT OF EXPERSOFT İNFINA PM1E SOFTWARE IN PORTFOLIO MANAGEMENT

While the Expertsoft İnfina PM1e software which is used since 2013 in data flow of financial transactions from TCIP to SAP and in performance calculation, has continued to develop, significant improvement has been made on the reporting side with the new version.



What are the areas in which TCIP is successful?



44.75%

Compensation
of post-earthquake
loss / fund creation



28.28%

Raising awareness
on earthquake insurance



26.38%

Providing security to
people's dwellings
against a possible
earthquake

SECTION 6

DAMAGE MANAGEMENT

DAMAGE MANAGEMENT

With regard to 562 earthquakes resulting in damages which have occurred since its establishment, TCIP has made loss claim payments in the amount of TL 179,384,723 in total. There has been no earthquake in 2017 which has caused casualty. For the 31 earthquakes resulting in damages that occurred throughout the country, loss claim payments of TL 5,984,222 in total have been made to 1.463 claim files. A great majority of the notices have been received for Gökova Gulf, Aegean Sea, Adıyaman and Çanakkale earthquakes.

Loss claim payment of TRY 179,384,723 in total has been made for 23.686 files opened for 562 earthquakes resulting in damages.

01.01.2017 - 31.12.2017

- » Total number of loss claim notices: 2.977
- » Number of files finalised: 2.801
- » Number of files settled: 1.463
- » Indemnity amount paid: TL 5,984,222

LOSS CLAIM PAYMENTS BY YEAR (31.12.2017)

YEAR	EARTHQUAKES	FILES	PAYMENT (TL)
2000	1	6	23,022
2001	17	336	126,051
2002	21	1,558	2,292,145
2003	20	2,504	5,203,989
2004	31	587	768,927
2005	41	3,489	8,134,351
2006	23	500	1,303,672
2007	42	997	1,492,767
2008	45	481	558,848
2009	37	268	525,173
2010	37	458	756,442
2011	42	7,893	141,592,228
2012	56	1,665	5,671,838
2013	23	174	765,405
2014	37	817	2,334,757
2015	32	295	966,418
2016	26	195	884,468
2017	31	1,463	5,984,222
TOTAL	562	23,686	179,384,723

6.1 LOSS ADJUSTER RESOURCE

Damage assessments are currently performed by loss adjusters carrying on business in the insurance sector, having a license in the areas of "Fire, Natural Disaster and Theft" and "Engineering", who are appointed by TCIP.

In case a large-scale earthquake occurs especially in the first zone which involves Istanbul, in order that the damage assessment procedures can be made quickly and efficiently, the number of the loss adjusters to be assigned is of great importance.

From the beginning up until 31.12.2017, 300 loss adjusters have been assigned in earthquake damage assessments and experienced the post-earthquake atmosphere.

Starting from the Van earthquakes of 2011, we have aimed to appoint the maximum number of loss adjusters possible in earthquake damages and to provide them with on-the-job training. From the beginning up until 31.12.2017, 300 loss adjusters have been assigned in earthquake damage assessments and experienced the post-earthquake atmosphere.

However, within the scope of the Disaster Management Project, based on the idea that the existing loss adjusters will not meet the need in full in a possible large scale earthquake, we are carrying out practices to

increase the reserve damage assessment resources.

For this purpose, the Pool is required to make plans in relation to both the number and the level of knowledge of the loss adjusters who will meet the damage volume according to possible earthquake scenarios.

Considering the fact that a large number of damage assessment transactions to arise in such an extraordinary case can only be managed with joint projects to be developed with other pools, the Pool has determined that, in addition to the existing loss adjusters, civil engineers and architects of the local administrations can also be utilized as a resource in damage assessment.

Since the need for an increased number of experienced civil engineers arises with the increase of the damage extent and the possibility of occurrence of a structural damage, for the purpose of creating a reserve resource, we have started to work with various public institutions and universities on training programs.

Mobile Damage Assessment Application

Within the scope of the Disaster Management System project, the Pool is planning to make it possible for the damage assessments to be made solely through the Mobile Damage Assessment Application in the upcoming period.

In this context, as a result of the endeavours which have started in 2016 and continued in 2017, a loss adjusters group of 92 persons in total has been introduced to and informed about the Mobile Damage Assessment Application, following which site practices have been started with 20 loss adjusters. In this framework, for the purpose of wide-spreading our Mobile Damage Assessment Application and increasing its use, we will

continue to hold loss adjuster training meetings within the scope of 2018 business plan.

6.2 DISASTER MANAGEMENT SYSTEM

The SAP Disaster Management System (AYS), software studies of which have started in 2014, has been put into practice in 2016, damage application has been automatized, and providing an operationally-quick solution has been targeted.

AYS has been designed for the purpose of systemic management of the entire damage assessment process.

AYS is a system which is designed for systemic management of the entire damage assessment process, which allows the opening of systemic collective damage files as well as receiving of notices from different channels, and whereby the processes of collective loss adjuster appointment to the damage files and management thereof are performed by automation, and damage files with large claim amounts can be efficiently processed, and which allows payment of the indemnities to the insured parties in the fastest and most correct manner.

In the Van earthquakes, it has been identified with the experiences gained in the existing damage management that following a large scale earthquake to occur, a more professional infrastructure is necessary to be established, which is capable of managing a damage assessment operation of a catastrophic size. Although the AYS Project has started with the conclusion drawn from

the experiences gained after a large-scale earthquake, with this project, we have aimed to establish a system whereby not only the worst case scenario is taken into account, but also the daily activities of the Pool may be carried out.

Developments have been made in order that natural disasters can be manageable with development of new methods and models with AYS, operational management of a great number of damages to arise after catastrophic earthquakes, management of aftershocks, standardization in damage assessment, cost management, mobile payment infrastructure, mobile site and damage management functions. In this context, the prioritized developments made with AYS are explained below.

The Prioritized Developments Made with AYS

During damage assessment and loss adjustment process, mobile devices shall be used and online data flow from the site to the headquarters shall be ensured. A tablet software has been developed in parallel with and as fully integrated to AYS software development, which will be used in all the damage processes of TCIP, through which the online or offline damage assessment information shall be transferred by loss adjusters into the Disaster Management System from all around Turkey. The aforementioned tablet software has been developed in a way to operate on the Android and iOS systems widely-used in the market.

In case a large scale earthquake occurs, especially in the cities with a high insured rate, receipt of notices only by phone and by customer services, may increase the time period for arrival at the site, and lead to extension of the loss adjustment process, and thus, loss of productivity and difficulties in management of operation. For these reasons, with AYS, we have aimed to open collective

damage claim files and send loss adjusters to the insured parties within the impact area of the earthquake occurred, without waiting for service of any notice. In addition to this, infrastructure of those systems has been prepared which will ensure that the insured will be able to send notices and open damage claim files, by only sending a short message, through the Pool's website and without the need for talking with an operator on interactive voice response system of the customer service centre. In addition, it will also be possible for the insured parties to get information on the files opened through the Pool's website and interactive voice response system.

Appointment of loss adjusters to the files which are opened upon the notices received or systemically in a collective manner is another issue. With AYS, a system where loss adjusters to be appointed are easily determined, their availability can be learned by short message and the appointments can be made collectively, has been designed and put into practice with the new system.

Another one of the important developments of AYS is the Mobile Damage Assessment Application which operates directly in connection with the damage software. With this application, damage assessment can be made quickly, and the assessment data are directly transferred into the damage software. The assessments to be made with the Mobile Damage Assessment Application consist of two stages, being the building damage status assessment and standard pricing.

Building Damage Status Assessment (Categorization)

The methodology used for assessment of the structural damage occurred in the load bearing system of the building due to the earthquake has been created by university teaching fellows. The damage categorization methodology that is developed has been scientifically proven,

calibrated and checked with similar methods. With this methodology, the extent to which the building's load bearing system has been impacted by the earthquake can be quickly and correctly identified. If the extent of damage is under a certain level, assessment of the decorative damage caused by the earthquake both for the common areas and independent sections can be proceeded with.

Standard Pricing

Efforts were conducted aimed at standardization of the damage assessment for the purposes of making the damage assessment process more transparent, standard and easily comprehensible by the insured parties, rendering it usable as a damage assessment resource also by those persons who do not have any insurance background after a short training process, to enable a loss adjustment process in a fair and standard manner independent of personal assessment differences, to determine and control the damage unit costs on a case-by-case basis, and to enable entering of the assessments made directly into the mobile software without the dependency on papers, and creation of data directly and instantaneously in the damage claim application with data transfer in suitable environment, and the performance of these functions via the Mobile Damage Assessment Application is made possible with the standard pricing software. With the standard pricing applications where the unit costs can be adjusted centrally based on the information such as the zone where the damage occurred, structural properties of the building etc., the amount of the payment to be made for the damage can be calculated and a loss adjustment report can be formed.

Within the scope of SAP application, a loss claim file inquiry display has been developed, where the insured parties can make damage claim notices and follow up the condition of

the claim file through dask.gov.tr, which is the Pool's official website.

The Disaster Management System software which have started to be used actively as of 2016, have been used as a pilot scheme in 2017 in management of over two thousand loss claim notices in total in the earthquakes occurred in our country, especially on western shores (In Çanakkale Ayvacık offshore, in the Aegean Sea, in the vicinity of İzmir-Karaburun and Gökova Gulf, and in Bodrum offshore), due to the construction density in the area.

6.3 NATURAL DISASTER RISK MANAGEMENT SYSTEM (ARYS)

The second stage developments of ARYS, which is an infrastructure and decision support system where the maps, images and data compiled from different resources by using Geographical Information Systems Technology are combined, correlated and converted into data, which developments involve also its integration with the Loss Claim Module, have been completed in 2017, and simultaneous communication of the policy and loss claim file data has been made possible. Acceptance tests of the integrations are ongoing.

The developments made in the system have provided benefit in the real-time and daily follow up of the impacts of and loss adjuster appointment organization for the earthquakes occurred especially in the Aegean Sea, in the vicinity of İzmir and Gökova Gulf, Bodrum offshore.

Upon completion of the loss adjustments and communication of the reports thereof to the Pool systemically, it is considered that making all the data searchable shall provide benefit in the upcoming period in file search.

The first step for wide-spreading ARYS in a way to cover the entire Turkey has been taken by

integration into ARYS of the True Orthophoto Project aerial photographs as a separate layer. The provinces/districts and settlements which are accepted by the Directorate General of Geographic Information Systems of the Ministry of Environment and Urbanization, have been integrated into the system by initially being regarded as a service.

Making progress in the efforts for wide-spreading ARYS shall be possible especially by completing and integrating into the system the printouts of the MAKS (Spatial Address Registration System) project of the General Directorate of Civil Registration and Citizenship, and in this way, it will be possible to obtain the targeted results in a more precise and correct manner.

6.4 TRUE ORTHOPHOTO PROJECT

The True Orthophoto Project, the contract of which was signed on June 26, 2014, and is carried out under the Technical Coordination of the Directorate General of Geographic Information Systems of the Ministry of Environment and Urbanisation, was concluded as of 31.12.2016. The efforts for acceptance of this project, where up-to-date building inventory in the urban areas are determined while True Orthophotos in 1/1.000 scale of the settlements throughout Turkey (province/district/town) are produced, have been completed in 2017, and upon communication of the acceptance report by the Directorate General of Geographic Information Systems of the Ministry of Environment and Urbanisation, the project has been concluded by the Final Progress Payment.

For the purpose of providing base maps which will have a significant place in TCIP's damage support system, the efforts for establishment of image and data transfer between our institutions have been completed, and Orthophoto Images have been incorporated into TCIP ARYS system.

6.5 DISASTER CALL CENTER

Our endeavours, which have started with determination of the scope and general process of the project together with the experts of the Call Centre, has continued by assessment of the existing process and preparation of the impact map of a potential Istanbul earthquake. In modelling of possible maximum impact, by also taking into consideration the existing damage assessment processes, the number of notices and calls in connection therewith that may come from the insured in relation to policies, and the possible number of such insured and policies, and the impacts of a possible large-scale aftershock and/or new earthquake, as well as their repetition characteristics upon determination of the call groups and channels have also been taken into consideration.

Upon formation of the model and determination of possible call volume, the nominee companies/contractors have been determined and their competency and capacity have been evaluated. Cost element of the design of the Disaster Call Centre has also been considered as a significant criterion. In the light of the foregoing, the company/contractor has been determined, the operation model has been established and the contract phase has started.

With the necessary infrastructure preparations for kick-off of operation until the end of 2017, the contract has been brought to its last phase, and it has been made possible to reach to a stage where the service can start following the trainings.

This modelling study, which we have made for an earthquake, the time, place and extent of which are uncertain, but the damage impact of which is not possible to be disregarded, along with the model that we have created, have no other known example in the world, and all the parties have exercised utmost care and effort

to carry it into practice in the most efficient manner.

6.6 DAMAGE ASSESSMENT PROTOCOL OF THE MINISTRY OF ENVIRONMENT AND URBANISATION

The protocol between the Ministry of Environment and Urbanisation and the Turkish Natural Catastrophe Insurance Pool (TCIP), which was drafted to enable technical personnel of the Ministry of Environment and Urbanisation to conduct damage assessments of residential properties and buildings that are within the scope of TCIP following earthquakes, was signed in August 2017 by Mehmet Şimşek, Turkey's Deputy PM in charge of Economy, and Mehmet Özhaseki, Turkey's Minister of Environment and Urbanisation.

Aimed to restore the normal course of life after an earthquake in the fastest manner possible, the protocol intends to minimise the sufferings and to enable the performance of damage assessments in a swift manner, as well as to reduce the backlog in courts, through a combination of residential property assurance provided by compulsory earthquake insurance and the knowledge, experience and technical capacity of the Ministry of Environment and Urbanisation, under the coordination of the Directorate General of Construction Works.

On 7 December, 2017 an introductory meeting was held in order to introduce to the Provincial Directors and Deputy Directors of Environment and Urbanisation the grounds and objectives of the "Protocol of Cooperation for Post-Catastrophe Damage Assessment of Residential Properties Covered by the Compulsory Earthquake Insurance", as well as the field works to be conducted in that respect, and to also provide information to them on the selection and identification of

the technical personnel who will attend the trainings to be provided to them subsequently and to ensure their support for the same.

The introductory meeting was attended by Mr. Özhaseki, Turkey's Minister of Environment and Urbanisation, as well as the Undersecretary, the directors from the Directorate General of Construction Works under the Ministry of Environment and Urbanisation, the Provincial Directors and Deputy Directors of Environment and Urbanisation, and officers from TCIP.

The presentations made to the Provincial Directors and Deputy Directors of Environment and Urbanisation explained the works performed in order to ensure standard and swift management of catastrophic earthquake operations with a fewer number of experts in major disasters, by reducing the need for professional expertise, through the adaptation of TCIP's new natural disaster management methodologies to mobile technology. Information was also provided on the works we performed as part of the Natural Disaster Management System project. The meeting was followed by damage assessment trainings, and information was provided on certification and the aim of strengthening the cooperation between the two institutions. On the grounds of the Directorate General of Construction Works under the Ministry of Environment and Urbanisation being the main solution partner of the Disaster and Emergency Management Authority (AFAD) with respect to damage assessment within the scope of Turkey's National Disaster Response Plan, the AYDES (Disaster Management and Decision Support System) Damage Assessment module, which is currently being developed by AFAD, will be used in damage assessments, and for this reason AFAD also delivered a presentation on the program being developed.

Which of the following is true for TCIP?

44%

It is a pool operating on public-private partnership

36%

It is a public institution

17%

It is an organisation managed by private sector

SECTION 7

TCIP INFORMATION TECHNOLOGIES AND INFRASTRUCTURE MANAGEMENT

TCIP INFORMATION TECHNOLOGIES AND INFRASTRUCTURE MANAGEMENT

7.1 ORGANISATION OF SBM EXTERNAL INSTITUTIONS DIRECTORATE

As of 2015, all the management of TCIP's Information Technologies assets and processes is carried out by the Insurance Information and Monitoring Centre (SBM). The TCIP department which was established within SBM in 2015 has been positioned under SBM External Institutions Directorate in 2016. The relevant department provides support to all the software life-cycle processes of TCIP, daily and periodic work flows, provision of the coordination within SBM, management of suppliers, follow-up of the contract management, project management, technical support process, satisfaction of the needs of insurance companies and solution of problems.

7.2 TCIP DEPARTMENT'S PROJECTS

Some of the projects of various extent that were performed in the year 2017 are detailed below.

7.2.1 TCIP BUILDING DISCOUNT PROJECT

As per the provision of article 2 of the Communiqué on Compulsory Earthquake Insurance Tariff and Security which was published on the Official Gazette no 29935 dated 31.12.2016 stating that "pursuant to article 17, paragraph three and article 21, paragraph five of the Condominium Law No.634, purchase by building/housing complex managements of Compulsory Earthquake Insurance is considered within the scope of management of the main immovable. In case all the residential properties in the building/housing complex are insured by the building/housing complex management, a discount of 20% is applied"; in case an

entire building with minimum 8 flats or all the apartments in an housing complex have ZDS, for the purpose of creating a new structure whereby a collective building discount of 20% shall apply in addition to the existing discounts, a 174 a/g project has been developed and went live on 01.06.2017.

7.2.2 TCIP CALL CENTER PROJECT

In a possible earthquake which will create a large-scale destruction impact, taking into consideration the intense demands to be received from those insured parties who will need to utilize Compulsory Earthquake Insurance (ZDS) system, job descriptions and contract preparation are made. In this sense, by connecting to the Customer Representatives from the Customer Services line ("125"), we aim to make notifications, to make outsourcing for front office which will answer questions and information requests, to establish the necessary cooperation and to constitute the entire infrastructure. The relevant project has started in 2016, supplier selection and contracting processes have been clarified and the project has brought to its last stage in 2017, and it is planned to go live in March 2018.

7.2.3 TCIP ALO 125 PROJECT

The front office which will ensure that the transactions, complaints and information requests of TCIP's insured parties can be answered by connecting to the Customer Representatives from "125" Customer Services line, is the outsourcing need for various outbound calls. The project, which has started in 2017 for the purpose of replacing the supplier which carries out the procedures regarding responding by the Customer Representatives to the demands in the calls from the insured (front office) or outbound calls in the manner and quality as defined

by TCIP and making the information and transaction entries into the relevant systems, went live in January 2018.

7.2.4 TCIP DIGITAL ARCHIVE PROJECT

With TCIP Digital Archive Project, we have aimed to create a reliable and joint pool memory, to collect the documents in a joint data storage and to make saving in the costs such as for communications and human resources etc. With this project, approximately 30,000 loss claim files of TCIP which are currently stored only in physical environment, and any claim files, official letters and documents to be found within the body of the pool in the future, shall be transferred to the digital archive system. The relevant project's RFP practices have started in 2016, and supplier selection has been made in 2017. It is planned to go live in 2018.

7.2.5 NEW TCIP WEBSITE PROJECT

For the purpose of renewing the existing website and putting it into service again as a more user friendly and interactive website for the agencies and citizens using it intensely, and installing a management panel structure which may be updated by TCIP's officials, the project efforts have started in the last months of 2017, and it is planned to be made available to users in 2018.

7.2.6 TCIP-ARYS ORTHOPHOTO PROJECT

The project, which has started in 2017 for the purpose of making searchable on the TCIP ARYS application map, the images of the orthophoto services provided by the Ministry of Environment and Urbanisation within the scope of TCIP-ARYS, which will be captured on Kamu –Net with SBM through a safe data line, and which are captured, arranged, coordinated and converted into orthophoto format within the scope of the True Orthophoto (Turkey data) Project with a definition of 10 cm, is planned to be completed in 2018.

7.2.7 NVI COMBINED FILE INQUIRY

With the announcement sent by NVI on 10.11.2016, it has been specified that with the "Person with Blue Card Search with ID Number", "Personal Information Inquiry with Republic of Turkey ID Number" and "Foreign Persons Personal Information Inquiry with Foreign ID Number" Services, and the services assisting in verification of the latest valuable paper information of the persons at their affiliated registry and the persons, have, in consequence of the studies made, been combined as a single service under "Combined File Inquiry Service with ID Number", and that these services shall be no longer available as of 31.01.2017. Within the scope of the change made, the practices aimed at replacement of the Republic of Turkey ID Number and Foreign ID Number services used by TCIP with the Combined File Inquiry Service with the ID Number which will be newly opened, have started in 2016, and went live in January 2017.

7.2.8 RENEWAL DISCOUNT STAGING

The amendments made in accordance with the explanation in article 2, paragraph 4 of the Communiqué on Compulsory Earthquake Insurance Tariff and Security which was published on the Official Gazette no 29935 dated December 31, 2016, stating that "In case at the end of the policy period, the insurance is renewed within 30 days at the latest, a discount of 10% is made for the first, second and third renewals for the renewed policy at the above tariff prices, and a discount of 20% is made for the renewals after the third renewal", have been put into effect in January 2017.

7.2.9 SAP CM and MOBILE GOING LIVE TRANSITION

The development of the SAP Mobile application which was used by Loss Adjusters in 2017, and the SAP CM application which is in connection with the SAP Mobile application, were collectively put into effect in October

2017, and coordination of all the loss adjusters on the site has been ensured before and after of going live.

7.3 WORK FLOWS

In addition to the projects which are developed and followed up by the TCIP Department at SBM Analysis Directorate, a process has been created in order for meeting the daily work needs. Periodic works and real-time responses are monitored in this process. Within the daily processes, TCIP Batches are controlled, and any problem encountered is responded to on the same day. All the questions and problems communicated by the insurance companies through SBM Jirası are answered on the same day. Any circumstances which will interrupt the daily work-flow are responded to in real-time.

Among the periodic work flows, there are certain needs such as updating of TCIP's website, provision of end of month SAP FI agreement data, preparation of the loss payee lists shared with banks on a monthly basis, preparation of software resource codes biannually and real-time reporting.

Among the periodical needs are answering by TCIP of the report demands from different departments and organisations, and determination and putting into SDLC process of the new needs.

7.4 INFRASTRUCTURE MANAGEMENT

7.4.1 INSTALLATION OF ODM ENVIRONMENTS

Application Servers

With the preliminary work made in TCIP's ODM environment, the deficiencies have been identified. In consequence of the practices made in virtual and physical environment;

- » Production application installations have

been made and their tests have been completed.

- » SAP Damage Management application has been arranged in ODM environment to be replicated in real-time, installations and tests have been made and it has been put into use.
- » ARYS application installations have been made and their tests have been completed.

Databases

ODM copies of the database of the ARYS application have been installed.

Servers and Other Systems

For the purpose of providing resource to the practices made in ODM environment and newly installed servers;

- » 3 new physical servers have been installed in virtualization environment, and the firmware updating procedures of the existing servers and vmware environments have been completed.
- » Updates of the entire virtualization environment have been made.
- » The increased disc capacity need of the virtualization environment has been met.

7.4.2 PROCESS MANAGEMENT PROJECT

A new process management structure has been set up under the umbrella of SBM, the central process management function has been installed, 162 processes and 649 sub-processes have been documented, work flows have been created, and RACI task matrices have been prepared. TCIP processes have also been included within the scope of the project.

7.4.3 COBIT INSPECTION

COBIT compatibility inspection for the processes within the determined scope, has been performed by Ernst Young Kurumsal Finansman Danışmanlık A.Ş., and the inspection and assessment report has been

shared with us. In January 2018, development road map shall be prepared and delivered and the project shall be concluded.

7.5 PLANNED WORKS

7.5.1 WINDOWS-LINUX SERVERS UPDATE WORKS

Patches of the Windows servers have been monthly entered in TCIP environment. Linux servers have been integrated with the satellite product for package and version management, central management has been started, and all the updates have been entered in quarterly periods.

7.5.2 BACKUP SYSTEM CAPACITY INCREASE

The disc capacity of the EMC Data Domain product where TCIP's systems are also backed up, has been increased both at Istanbul data centre and at Ankara ODM, and a capacity increase has been ensured in the backup system.

7.5.3 LOAD BALANCER RENEWAL

The load balancer systems, which undertake the duties of balancing the loads of certain systems of TCIP, distributing the requests and ensuring application safety, have been renewed with the new devices purchased, and the security level and load balancer performance have been increased.

7.5.4 FTP SERVER TRANSITION

In order that provision of the critical maintenance and support services such as service continuity, minimization of information security risks, package management and troubleshooting etc. may continue, the ftp server, which was operating in an operating system which is not supported by its manufacturer any more, has been moved to an up-to-date operating system.

7.5.5 INSTALLATION OF INFINA ENVIRONMENT

For TCIP's financial reports, TCIP Analytics servers which are created in Prod and Test environment have been installed.

7.5.6 APPLICATION SERVERS UPDATE WORKS

The Oracle WebLogic application servers in TCIP Dev, Stable, Sstest, PreProd environment have been updated at WebLogic, operating system and Java streaming media level, and increase of support level has been ensured with up-to-date versions as well as performance improvements have been made.

7.5.7 ENSURING MONITORING OF TCIP SYSTEMS

24/7 monitoring of all the servers has been ensured by ManageEngine Op Manager tool, and follow-up and monitoring of the database and application servers by PRTG tool has been ensured. However, for monitoring of online services and websites, the necessary structuring has been performed on Monitive and Pingdom tools.

7.5.8 INSTALLATION OF MS SQL SERVER BACKUP ENVIRONMENTS (CLUSTER)

A two-node test cluster system has been installed within the body of SBM, where MS SQL Server databases used under property of TCIP will be hosted. Migration transactions of the existing test databases have been completed, and non-existing test databases have been installed.

A two-node production cluster system has been installed within the body of SBM, where MS SQL Server databases used under property of TCIP will be hosted, and migration transactions of the existing production databases have been completed.

7.5.9 INSTALLATION OF TCIP TEST DATABASE

The test database environment requested by TCIP's department has been installed. Since the installed database is fed by production environment data, pursuant to the information security principles, direct access to the database is restricted, and only access by application servers is allowed.

7.5.10 CAPACITY INCREASE OF TCIP DATABASE SERVERS

The physical servers used under property of TCIP within the body of SBM, where the Oracle database virtual servers are operated, have been replaced with the new generation servers purchased. Within the scope of this practice, the transition transactions have been completed uninterruptedly except for the exempted servers, interruptions have been planned for those servers determined to be exempted, and the transition transactions have been completed successfully.

7.5.11 TCIP MAIN DATABASE CPU INCREASE

A CPU-based capacity insufficiency has occurred in the main databases within the body of SBM belonging to TCIP, and based upon the necessity, CPU capacities of the servers have been doubled.

7.5.12 PERFORMANCE OF TCIP'S PLANNED ODM TESTS

Our TCIP systems located at Ankara ODM (Disaster Recovery Centre) have been activated, and planned disaster tests have been performed.

7.5.13 GENERAL INFORMATION SECURITY EFFORTS

- » Within the scope of Datacenter infrastructure improvement project, cabling, labelling and consolidation works have been performed.
- » IPS (Invasion Prevention Systems) Servers

and systems have been updated.

- » Version updates have been made to Symantec Endpoint server and systems, up-to-date agents have been installed on all the servers and they have been commissioned.
- » VPN accesses have been completely restricted for third parties, and in this context, efforts not to leave any open gate have been performed.
- » Version updating and improvement practices have been performed in our internal and external firewall systems.
- » Version updating and improvement practices have been performed in our DLP (Data Loss Prevention) systems.
- » URL Filtering / Application Control modules have been put into use in our firewall systems, and thus, internet connections and uses of our applications have been taken under control.
- » For the zero-day cyber threats which have emerged in 2017, the relevant patching and updating transactions have been made for all the security products. The most known cyber threats have been Wannacry, Petwrap, Petya, Meltdown and Spectre.
- » Ddos cyber invasion protection services have been configured, and they have been made more efficient against possible cyber invasions.
- » Certain practices have been performed on all the TCIP systems within the scope of regular penetration tests.
- » The security logs of all the operating systems have been brought together and monitored and checked centrally from a single point.
- » Within the scope of process management project, TCIP processes have been integrated into SBM processes.
- » TCIP systems have been included into the scope of user access and authorization controls.
- » TCIP systems have been included into

ISO 27001 certificate controls, and our certificate has been renewed without identification of any major finding.

7.6 SUPPLIER AND SUPPORT MANAGEMENT

TCIP have many systems, and all the systems are developed by different suppliers. Since all the infrastructures belonging to TCIP systems are on the SBM side, first of all the relationships between suppliers and SBM business units, the communication between suppliers for the systems integrated with each other, and in cases where necessary, the communication between TCIP and supplier, are provided by the TCIP Department at SBM Analysis Directorate.

Solution of the problems arising from the integrations in different systems is identified, and upon identification of the solution, the coordination necessary for intervention is achieved, both within SBM and among the suppliers.

The necessary support is given for the information requests received from Insurance Companies, the xml and fault controls communicated, the solutions thereof, and provision and updating of test data. Likewise, the TCIP Department at SBM Analysis Directorate gives solution support to the questions and problems received from TCIP.

7.7 PROJECT MANAGEMENT

Since more than one suppliers are worked with in TCIP projects, a correct project management gains importance. Within the period from the beginning to the closing of the Project, bringing together all the parties, follow-up of the issues expected from the parties after the meeting, follow-up of the stage which the project has reached, follow-

up of the work items within the life cycle of the project, the processes for putting into use the projects and the coordination thereafter, are all being managed by SBM Project Management Directorate.

7.8 PURCHASING AND CONTRACT MANAGEMENT

Within the scope of performance of the services specified by the Prime Ministry's Undersecretariat of Treasury, a protocol has been signed between SBM and TCIP. This protocol sets out the principles for conferring to SBM the responsibility of the Information Technologies Assets of TCIP, and transfer to SBM of the authority, management and responsibility of the IT Services to be performed for TCIP. Within the scope of the Protocol, purchasing and contract management activities in relation to IT services are performed by SBM.

The purchasing and contract management issues which have been completed until the end of 2017 have been taken into consideration within the scope of the activity report.

In 2017, 29 purchase activities in total have been performed by SBM on behalf of TCIP. Within the scope of the services performed, 16 Master Agreements and 6 Supplemental Contracts have been concluded, and 2 different Hardware Purchasing Activities have been performed, 4 different License Purchasing activities have been performed and 1 protocol has been concluded. In addition, practices in relation to the processes of TCIP Digital Archive and TCIP Call Centre projects, which have started in 2016, are being followed-up.

What should be the position of TCIP in the future?

40.5%

It should be available
for all residential
properties

25%

Citizens should have full
trust in damage indemnity

19%

It should cover the entire
financial loss that would occur in
a possible major earthquake, with
its total net asset value of fund

SECTION 8

ADVERTISEMENT AND PUBLIC RELATIONS ACTIVITIES

ADVERTISEMENT AND PUBLIC RELATIONS ACTIVITIES

8.1 CONSTITUTION OF THE POOL'S GENERAL PUBLIC RELATIONS AND ADVERTISEMENT STRATEGIES

In addition to insurance awareness, our Pool is organising public relations and promotion activities which will support development of earthquake awareness, and safe life and earthquake-resistant buildings understanding in our country.

Communication Efforts Based on Transparency and Mutual Confidence

While determining its communications efforts, TCIP focuses on developing projects to increase the earthquake and earthquake-readiness awareness throughout the country. The Pool addresses many target audiences with its projects, with residential property owners, insurance companies and agents, primary education, high school and university students, public institutions and local managements being in the first place.

The insurance companies and agents, which are one of the business partners that TCIP

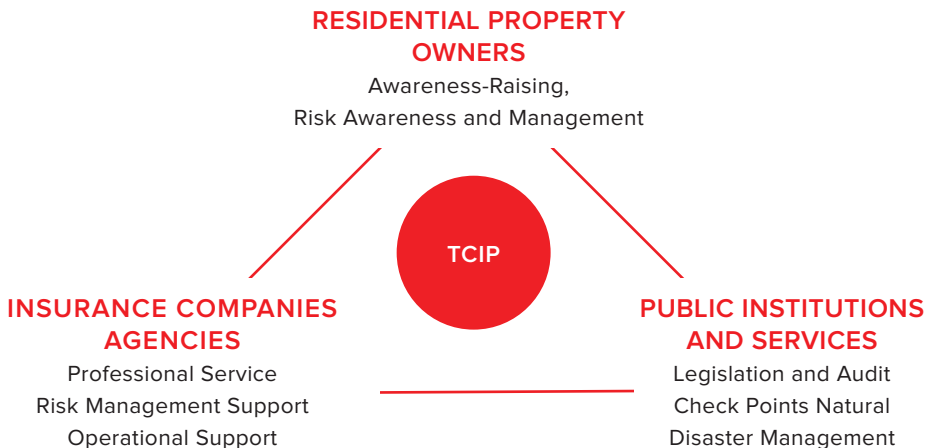
considers to be most important in wide-spreading ZDS throughout the country, play a significant role in development of the service processes pre and post-disaster. Working very closely with the public institutions as well, TCIP is able to reach out to all around the country by this means.

Social Media in Corporate Communication

Addressing a very large target audience from different segments of Turkey, in addition to the channels such as television and newspapers, TCIP attached importance to take part also in social media in its communications efforts. By monitoring the developments and trends in the social media very closely, the Pool is able to adapt its communication efforts to the requirements of the time. We are aiming to achieve 360- degree integrity of the concept on which we work, in terms of communication, advertisement, social media and media purchasing.

With regard to communication, the Pool aims to

- » Invest in confidence and reputation,



- » Develop the risk perception in relation to TCIP, and
- » Develop the continuity and gaining of new insured

8.2 PRACTICES AND PROJECTS

The practices and projects performed may be grouped as follows:

1. Projects Aimed at Developing the Perception of Risk

- » The Contest of Cities are Competing, Insured are Winning
- » TCIP Social Analysis Project
- » Earthquake-Resistant Building Design Contest
- » Red Crescent's Project for Organizing Community Leaders (TLT)

2. Projects Aimed at Confidence and Reputation

- » Sponsorships and Meetings

3. Projects Developed for Continuity and Gaining New Insured

- » Sending Promotion Materials to Land Registry Directorates and Provincial Disaster Directorates
- » Billboard Use
- » Public Service Announcement

Efforts are ongoing to develop and expand the "Cities are Competing" project, which has been performed for a period of 5 years, and to start the same in 2018 under the title of "Safety at Our Home".

8.2.1 RESTRUCTURING OF THE CONTEST OF "CITIES ARE COMPETING, INSURED ARE WINNING": "SAFETY AT OUR HOME, SAFETY IN OUR CITY"

In consequence of the "Cities are Competing" project, which has been performed for a period of 5 years under management of Governor's Offices and in coordination of Provincial Disaster Directorates for the purpose of increasing the public awareness and information in relation to TCIP Compulsory Earthquake Insurance, it has been concluded that:

- » The awareness efforts to be performed locally in relation to TCIP and ZDS constitute a significant need,
- » The efforts performed by Provincial Disaster Directorates are of critical significance for ensuring public participation, reaching out to different segments and creating an impact.

For the purpose of ensuring that the efforts and the project which have been carried out in coordination of Provincial Disaster Directorates up until 2016;

- » can be made widespread throughout Turkey with a sustainable model,
- » Achieving a high level of awareness in the persons reached out to in relation to TCIP and ZDS, and especially perceiving ZDS as a personal responsibility rather than a mere obligation,
- » Raising awareness for use of ZDS, and
- » Contributing to achievement by TCIP of its strategic priorities and targets, the project has been restructured.

The project, preparation works of which are ongoing for its kick-off in 2018, has been restructured to perform more efficient and target-oriented practices

- » To be implemented throughout Turkey in cooperation with AFAD, with
- » An inclusive concept,
- » Standard contents,
- » Standard discourses and messages,
- » Standard application methods and models in order to reach out to children, women, men and general public,
- » Needs-oriented supportive communication materials.

In our country, which is located on a seismic belt, pursuant to the priority of ensuring that people are prepared against earthquakes and their awareness in this respect is raised, in order that;

- » Contribution can be made to comprehension of the principles of readiness to earthquake,
- » TCIP is included in the principles of readiness to earthquake, and positioned correctly,
- » And all segments of the society can be reached out to, we have focused on;
 - » Developing innovative contents and tools,
 - » Facilitating applications,
 - » Reaching out to every segment of the society.

In order to communicate TCIP's principal messages to the relevant target audiences and to break the stonewalling against earthquake and readiness to earthquake, different training and awareness-raising efforts made have been reviewed and we have thus aimed;

- » To focus on the principle of continuity of life by considering the content within the framework of "Nature and Natural Events",
- » To create a perception that disasters occurred in consequence of natural events can be prevented,

- » To develop a concept which will make the society adopt that earthquake is a natural event and we all have responsibilities in order to minimize the damages of earthquake,
- » To contribute to creation of a society which is informed about earthquake and mitigation of the damages of earthquake.

Accordingly, in consequence of the efforts which were started in 2016;

We have developed the model of "Readiness to Earthquake with TCIP", and the scope of the project has been expanded to start an earthquake-readiness mobilization country-wide.

In parallel with the target audience and area of activity of TCIP, by taking as basis, first of all, ensuring of our safety at our homes against earthquake within the scope of the project, for the purpose of fitting the earthquake- readiness into an holistic understanding and including TCIP in the principles of readiness to earthquake by positioning it correctly, a comprehensive training and information project has been prepared.

The project of Safety at Our Home, which was planned to be performed throughout Turkey in cooperation and support of AFAD, covers various training applications, innovative learning tools and methods, and open and closed area events, via channels which will reach out to all segments of the society, children and women being in the first place. After the first-year efforts were made for the project of Safety at Our Home, preparations of which are ongoing and which is ready to kick-off in 2018, we are planning to measure the benefits made by the events, develop the project according to the results of the measurement and assessment, and to make the applications, which will ensure that the

project can reach out to all around Turkey, widespread.

8.2.2 TCIP SOCIAL ANALYSIS PROJECT

1A

Turkish Natural Catastrophe Insurance Pool, which was established after Marmara Earthquake as a measure against the risks of an earthquake with destructive impact, has been improved with Compulsory Earthquake Insurance for compensating financial losses, and with its successful implementation, it has shined out from among “earthquake readiness” efforts/practices and gained a different status. In order to reinforce the powerful position that TCIP has attained and to expand the economic and social value that it produced for our country and our society with the opinions, proposals and assessments of its stakeholders, the Social Stakeholder Analysis practices have been started.

The practices which were started in February 2017 with the aim of producing qualified data in order that TCIP can plan its communication and interaction investments and its relationships and strategies with its stakeholders in the upcoming period were completed in December 2017.

We have prepared comprehensive question sets for the Social Stakeholder Analysis which can produce answers to questions such as “Are the figurative, managerial and efficient implementation success of TCIP sufficient against the earthquake risk that our country is faced with? How can we expand this success? How can we bring TCIP to a point where it will reach out to everyone who lives with the worry of earthquake and be accepted as one of the remedies? How can TCIP take part in the smart solutions produced for earthquake, which is one of our greatest problems for our society; how can it become internalized,

and how can its adoption by every segment of the society be ensured? ”. Taking into consideration the unique position of TCIP, the stakeholders from public and private sector with which it is in direct interaction and cooperation have been determined.

Within the scope of the analysis process which was started accordingly, one-on-one and thorough interviews have been held with and opinions and evaluations have been received from more than 40 qualified persons from 10 public institutions, 3 industry-specific NGOs and banks, and 10 companies including insurance companies, insurance agencies and loss adjusters.

More comprehensive surveys have been organised aimed at the organisations of those stakeholders with whom one-on-one and thorough interviews have been held and aimed at those insured by TCIP, and opinions and proposals have been received from 14.188 persons.

On the other hand, with the assessment meeting which all the employees of TCIP have participated in, TCIP’s internal opinion and its proposals which will carry TCIP to the future have also been included in the process.

At the end of the practices which have lasted approximately for one year, under the titles such as societal position of TCIP, roles and values provided to TCIP, expectations from TCIP etc., we have reached meaningful findings which have steering quality and quantity for TCIP’s business targets, strategy and investment plans.

With the comprehensive analysis of the findings that we have reached, we have prepared TCIP Social Stakeholder Analysis Report which includes;

- » Overview of Brand
- » Consolidated Results
- » One-on-one Interviews - Prominent Opinions, Proposals
- » TCIP's Vision
- » TCIP's World of Values
- » TCIP's Positioning
- » TCIP's Strategy
- » Strategic Priorities
- » Prioritized Investment Areas
- » Project and Application Proposals. (February 2018)

8.2.3 EARTHQUAKE RESISTANT BUILDING DESIGN CONTEST

The third "Earthquake-Resistant Building Design Contest", the first one of which was held in 2014, which aims to make the earthquake-resistant building culture widespread in Turkey, was held in 2017. The finals of the contest which have lasted for 3 days were held from 7th to 9th of May. 85 teams from 43 universities have applied to TCIP Earthquake-Resistant Building Design Contest. 28 teams which have passed the pre-screening round have competed in the final in Istanbul/4. Levent with the building models that they have designed as multi-storey office building. The finals of the contest which have lasted for 3 days were started with technical assessment of the building models and project presentations of the teams. On the second day of the finals, earthquake-resistance performance of the building models has been measured on the shake table.

The building models which have shown the best performance on the shake table that simulates an earthquake, which have survived 3 earthquakes of different scales with minimum damage, have gained awards to the teams.

The third Earthquake-Resistant Building Design Contest was held in 2017. 85 teams from 43 universities have applied to the contest.

The team of Izmir Dokuz Eylül University which has taken away the first prize from the Director General of Insurance of the Undersecretariat of Treasury Şerif Çakırsoy, has won for the construction engineering department of their university a shake table which simulates earthquake, to be used for training purposes. In addition, the first team has also won a monetary award of TL 15 thousand. While Sakarya University, which has won the second prize in the contest, has won a monetary award of TL 10,000, the winner of the third place, Istanbul University, and the winner of the Special Award of Best Earthquake Performance, Sivas Cumhuriyet University have won a monetary award of TL 5,000.

In addition, three special awards were won at the contest. Other award-winning teams are as follows:

Best Architecture Special Award:

Istanbul Technical University,

Best Communication Skills and

Presentation Award: Istanbul Technical University,

The Award of Spirit of Contest:

which was determined by the votes given by the participants of the contest, Adıyaman University

8.2.4 RED CRESCENT'S PROJECT FOR ORGANIZING COMMUNITY LEADERS (TLT)

The project partnership, which was started in 2013 for the purpose of explaining TCIP and ZDS to the community leaders of Red Crescent participating in TLT trainings and their target audience, has also continued in 2017. Within the scope of the Project for Organizing Community Leaders, the Program for Mitigation of Disaster Damages, which was performed with the project partnership of TCIP and Turkish Red Crescent, 200 thousand of class calendars of "I am Learning Safe Life with Red Crescent" have been printed to be distributed in 2018. The calendars which were printed, are planned to be distributed to all 1st, 2nd, 3rd and 4th classes of primary education throughout Turkey at the beginning of 2018, through Turkish Red Crescent branches and Provincial/District Directorates of National Education.



8.3 SPONSORSHIPS AND MEETINGS

The Sponsored Symposiums and Conferences

- » We have provided sponsorship support for the "Disaster Management Implementation and Research Centre Photo Contest", which was held by METU.
- » We have provided golden sponsorship support for the 4th International Earthquake Engineering and Seismology Conference, which was held from 11th to 13th of October, 2017.

- » We have provided sponsorship support for the 6th Symposium for Protection and Strengthening of Historical Buildings, which was held by TMMOB from 2nd to 4th of November, 2017 in Trabzon at Karadeniz Technical University, which was for the first time held with international participation in 2017.
- » We have ensured participation to the European Forum on Disaster Risk Reduction Open Forum (EFDRR Open Forum), which was held by Disaster and Emergency Management Authority and participated by approximately 500 participants.

Sending Promotion Materials to Land Registry Directorates and Provincial Disaster Directorates

We have sent TCIP introductory posters to all the Land Registry Directorates and Provincial Disaster and Emergency Directorates throughout Turkey to be hung at their institution, and TCIP introductory materials to the employees of the relevant institutions for the purpose of extending our thanks to them for their efforts in relation to compulsory earthquake insurance.

Billboard Use

On the anniversary of Van earthquakes, we have used 75 billboards on the billboard channels of Istanbul Metropolitan Municipality from 5th to 12th of November at various points.

Public Service Announcement

For the anniversary of 1999 Marmara Earthquake, as of August 2017, our public service announcements themed "Who will you be staying with if your house is damaged in an earthquake?" have been broadcasted on various channels in certain periods.

1 JANUARY -

31 DECEMBER

2017

Convenience Translation of
Financial Statements and
The Independent Auditor's Report
(Originally Issued in Turkish)

SECTION 9

FINANCIAL STATEMENTS

CONVENIENCE TRANSLATION OF INDEPENDENT AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH

To the Board of Directors of Doğal Afet Sigortaları Kurumu,

Our Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Doğal Afet Sigortaları Kurumu ("Turkish Natural Catastrophe Insurance Pool: TCIP" or the "Institution") as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Institution's financial statements comprise:

- the balance sheet as at 31 December 2017,
- the statement of comprehensive income for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

Independence

We are independent of the Institution in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities of management and those charged with governance for the financial statements

Institution management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Institution's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Institution or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Institution's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institution's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institution's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Institution to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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



Talar Gül, SMMM
Partner

Istanbul, 9 April 2018

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TURKISH NATURAL CATASTROPHE INSURANCE POOL BALANCE SHEET AT 31 DECEMBER 2017

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

	Note	31 December 2017	31 December 2016
ASSETS			
Current assets			
Cash and cash equivalents	4 and 5	957,539,065	3,204,589,416
Available-for-sale financial assets	4 and 6	4,729,467,040	1,388,937,410
Premium receivables	4 and 7	164,644,889	138,884,167
Deferred commission expense	16	94,717,551	81,383,425
Other current assets	8	139,729,914	150,235,363
Total current assets		6,086,098,459	4,964,029,781
Non-current assets			
Tangible assets, net	9	73,529	41,087
Intangible assets, net	10	33,409,367	36,513,526
Other non-current assets	8	-	8,006,180
Total non-current assets		33,482,896	44,560,793
Total assets		6,119,581,355	5,008,590,574
LIABILITIES AND NET ASSETS			
Current liabilities			
Short-term trade payables	4 and 11	177,745,107	199,902,767
Unearned premium reserve	12	525,837,216	452,438,159
Outstanding claims provision	4 and 12	13,535,625	10,190,138
Deferred income		-	990,000
Other Liabilities		94,174	-
Total current liabilities		717,212,122	663,521,064
Non-current liabilities			
Long-term borrowings	4 and 11	-	8,006,180
Total non-current liabilities		-	8,006,180
Total liabilities		717,212,122	671,527,244
Accumulated earthquake reserve	13	5,446,818,170	4,360,144
Items to be classified to profit or loss			
- Available-for-sale financial assets valuation decrease (-)	13	(44,448,937)	(23,081,323)
Total equity		5,402,369,233	4,337,063,330
Total equity and liabilities		6,119,581,355	5,008,590,574

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

**TURKISH NATURAL CATASTROPHE INSURANCE POOL
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017**

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

	Note	2017	2016
Revenues:			
Earned premiums	14	946,623,738	824,286,284
Total insurance revenue		946,623,738	824,286,284
Expenses:			
Cost of reinsurance coverage	15	(193,054,338)	(206,949,633)
Commission expenses	16	(169,991,745)	(139,528,579)
Incurrd claims	17	(10,747,703)	(4,243,507)
Other income/(expenses), Net		555,095	(1,994,783)
Total insurance expenses		(373,238,691)	(352,716,502)
Insurance revenue, net		573,385,047	471,569,782
General administrative expenses	18	(27,288,739)	(19,422,507)
Operating income		546,096,308	452,147,275
Financial income, net	19	540,577,209	380,082,681
Profit for the year (Increase in earthquake reserve, net)		1,086,673,517	832,229,956
Other comprehensive income:			
Items to be classified profit or loss			
Available-for-sale financial assets valuation decreases (-)	13	(21,367,614)	(8,822,440)
Total comprehensive income		1,065,305,903	823,407,516
(Increase in comprehensive earthquake reserve)			

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

TURKISH NATURAL CATASTROPHE INSURANCE POOL
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Revaluation fund decrease of available - for - sale financial assets	Accumulated earthquake reserve (Retained earnings)	Total
1 January 2016	(14,258,883)	3,527,914,697	3,513,655,814
Available-for-sale financial assets valuation decrease (-) (Note 13)	(8,822,440)	-	(8,822,440)
Profit for the year (Earthquake reserve increase, net)	-	832,229,956	832,229,956
31 December 2016	(23,081,323)	4,360,144,653	4,337,063,330
1 January 2017	(23,081,323)	4,360,144,653	4,337,063,330
Available-for-sale financial assets valuation decrease (-) (Note 13)	(21,367,614)	-	(21,367,614)
Profit for the year (Earthquake reserve increase, net)	-	1,086,673,517	1,086,673,517
31 December 2017	(44,448,937)	5,446,818,170	5,402,369,233

**TURKISH NATURAL CATASTROPHE INSURANCE POOL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017**

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

	Note	2017	2016
Cash flows from Institution's activities:			
Profit for the year (Earthquake reserve increase, net)		1,086,673,517	832,229,956
Adjustments for:			
Depreciation and amortisation charges	18	7,911,477	6,156,448
Investment Income		(536,610,250)	(380,127,752)
Foreign exchange profits associated with cash and cash equivalents	0	(1,069,839)	(2,761,496)
Provision for premium receivables	7	-	1,994,783
Changes in operating assets / liabilities:			
Change in receivables		(25,760,722)	(43,436,822)
Change in insurance reserves and deferred commission expense		63,410,418	35,474,055
Change in other current assets		18,511,629	13,249,390
Change in other liabilities		(31,059,666)	16,513,845
Net cash (outflow)/inflow related to investment activities		582,006,564	479,292,407
Cash flows from investing activities:			
Interest income and income from marketable securities		548,645,162	372,509,917
Change in available - for - sale financial assets		(3,361,897,244)	(728,785,039)
Purchases of tangible assets	9	(40,553)	(41,961)
Purchases of intangible assets	10	(4,799,207)	(11,415,308)
Net cash inflow related to investing activities (-)		(2,818,091,842)	(367,732,391)
Net (decrease)/increase in cash and cash equivalents		(2,236,085,278)	111,560,016
Foreign exchange profits associated with cash and cash equivalents		1,069,839	2,761,496
Cash and cash equivalents at the beginning of the year		3,185,342,573	3,071,021,061
Cash and cash equivalents at the end of the year	5	950,327,134	3,185,342,573

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

TURKISH NATURAL CATASTROPHE INSURANCE POOL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

NOTE 1 - NATURE OF OPERATIONS AND ADMINISTRATION

Doğal Afet Sigortaları Kurumu ("Turkish Natural Catastrophe Insurance Pool: TCIP" or the "Institution"), was established as a public legal entity in order to provide insurance and to fulfil the other tasks assigned to it under Decree Law No. 587 ("Decree Law") issued by the Council of Ministers and published in the Official Gazette on 27 December 1999. As it is published and became valid in Official Gazette under Law No. 6305 "Afet Sigortaları Kanunu" ("Law") on 18 May 2012, Decree Law was abolished and all the actives and passives and all rights and liabilities of the Institution which was founded with decree law is transferred to found the Institution without any transaction on 18 May 2012. The main operation of the Institution is to provide Compulsory Earthquake Insurance to ensure that owners of the buildings are compensated for their losses that occur as a result of an earthquake. The organization is ruled by six member of the board of directors of Doğal Afet Sigortalar Kurumu who has been working in T.C. Prime Ministry of Turkish Treasury ("Treasury"), Eureka Sigorta, Insurance Association of Turkey, academic member appointed by Higher Education Board, Security Exchange Commission and Ministry of Environment and Urban Planning.

The Institution started policy sales on 27 September 2000.

The execution of technical and operational activities of the Institution is outsourced. Under the provisions of Law No. 6305, administration of the operations of the Institution has been assigned to Eureka Sigorta A.Ş., as the "Institution Administrator", by Treasury through a contract signed on 8 August 2005 for a period of 5 years. After the renewal of tender in July 2010 then August 2015, Eureka Sigorta A.Ş. has been re-assigned as the Institution Administrator for the period between 2015 and 2020 and the related contract was signed on 7 August 2015. The Institution Administrator, based on the principles set out by Treasury and decisions of Board of Directors of the Institution; and on behalf of the Institution, provides day-to-day administrative services with respect to executing technical and operational aspects of all insurance activities of the Institution regarding compulsory earthquake insurance, applying plans for risk transfer and reinsurance, management of resources of the Institution, carrying out the campaigns related to public relations, marketing and education, purchasing of goods and services related to operations of the Institution and bookkeeping services. Institution and funds generated by the Institution are exempt from any kind of taxation.

With the agreement renewed on 1 January 2017, the Institution, Tarım Sigortaları Havuz İşletmesi A.Ş. ("TARSİM") has provided reinsurance guaranty for possible claim to the full package and frost risks and premiums written on serum insurance cover. The Institution will return half of the deposit premium collected to the TARSİM if claim has occurred within the agreement period of the contract.

The Institution and its revenues are exempt from all kinds of taxes, duties and fees.

TURKISH NATURAL CATASTROPHE INSURANCE POOL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

NOTE 1 - NATURE OF OPERATIONS AND ADMINISTRATION (CONTINUED)

The Institution is not subject to the law numbered 3346 Community Economical Attempts with the law about the auditing of the funds by Türkiye Büyük Millet Meclisi, Court of Accounts Law numbered 6085, Travel Expense Law numbered 6245, Public Financial Management and Control law numbered 5018 and Public Bid Law numbered 4734.

Insurance premium receivables of the Institution are collected in accordance with Law related to the Procedures for the Collection of Public Receivables numbered 6183.

Annual financial statements, transactions and expenses of the Institution are audited by Treasury.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The financial statements of the Institution at 31 December 2017 have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Institution maintains its books of account and prepares its statutory financial statements in Turkish Lira ("TL") in accordance with the Law numbered 6305. These financial statements are based on the statutory records, with adjustments and reclassifications, for the purpose of fair presentation in accordance with IFRS.

The financial statements of the Institution were approved by Can Akın Çağlar, General Manager of Eureka Sigorta A.Ş. which is the technical operator of the Authority, and Semra Aysun Ensari, Finance, Strategic Planning, Facility Management and Purchasing Director on 16 May 2017. Financial statements will be finalized after the approval from the Board of Directors.

Changes in International Financial Reporting Standards:

a) Standards, amendments and interpretations applicable as at 31 December 2017:

- Amendments to IAS 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.

TURKISH NATURAL CATASTROPHE INSURANCE POOL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

Changes in International Financial Reporting Standards: (Continued)

a) Standards, amendments and interpretations applicable as at 31 December 2017 (Continued):

- Amendments IAS 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.

- Annual improvements from 2014 to 2016;

- » IFRS 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. This amendment clarifies that, apart from the condensed financial information, the disclosure requirements of IFRS 12 apply to the shares in the businesses classified as available for sale. The internal control related to the audit is evaluated.

b) Standards, amendments and interpretations effective after 1 January 2018

- IFRS 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.

- IFRS 15 'Revenue from contracts with customers', effective from annual periods beginning on or after 1 January 2018. IFRS 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.

TURKISH NATURAL CATASTROPHE INSURANCE POOL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

Changes in International Financial Reporting Standards: (Continued)

b) Standards, amendments and interpretations effective after 1 January 2018 (Continued)

- Amendment to IFRS 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 licenses 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.

- Amendments to IFRS 4, 'Insurance contracts' regarding the implementation of IFRS 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:

- » All companies issuing insurance contracts will have the option to account for the volatility that may arise when IFRS 9 is applied, in the other comprehensive income statement, rather than accounting for profit or loss, before the new insurance contract standard is issued and give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 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.

TURKISH NATURAL CATASTROPHE INSURANCE POOL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

Changes in International Financial Reporting Standards: (Continued)

b) Standards, amendments and interpretations effective after 1 January 2018 (Continued)

- Amendments to IFRS 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 IFRS 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.

- Annual improvements, 2014 - 2016;

- » IFRS 1, 'First-time adoption of IFRS', regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10 effective 1 January 2018
- » IAS 28, 'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value effective 1 January 2018.

- IFRS 22, 'Foreign currency transactions and advance consideration', effective from annual periods beginning on or after 1 January 2018. This IFRS 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.

- IFRS 9, "Changes in financial instruments"; Effective for annual reporting periods beginning on or after January 1, 2019. This amendment confirms that if a financial liability measured at amortized cost is changed without resulting in a recognition, the resulting gain or loss is recognized directly in profit or loss. Gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted from the original effective interest rate. This means that, unlike IAS 39, it is not possible to recognize the difference over the remaining life of the instrument.

TURKISH NATURAL CATASTROPHE INSURANCE POOL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

Changes in International Financial Reporting Standards: (Continued)

b) Standards, amendments and interpretations effective after 1 January 2018 (Continued)

- IAS 28, "Changes in investments in associates and joint ventures"; Effective for annual reporting periods beginning on or after January 1, 2019. We have clarified that companies will account for long term participations or jointly controlled investments that are not applied by the equity method using IFRS 9.

- IFRS 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). IFRS 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 IFRS 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.

- IFRS 23, 'Uncertainty over income tax treatments', effective from annual periods beginning on or after 1 January 2019. This IFRS clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRS 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRS 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

TURKISH NATURAL CATASTROPHE INSURANCE POOL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

Changes in International Financial Reporting Standards: (Continued)

b) Standards, amendments and interpretations effective after 1 January 2018 (Continued)

- IFRS 17 "Insurance Contracts" is effective for annual reporting periods beginning on or after 1 January 2021. This standard replaces TFRS 4, which allows for a wide range of applications. IFRS 17 will change the basis of insurance contracts and the accounts of all entities that issue investment contracts with voluntary participation features.

The Agency assesses the impact of the above standards on the financial condition and performance.

NOTE 3 - SUMMARY OF SIGNIFICANT RELEVANT ACCOUNTING POLICIES

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Institution's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the respective accounting policy disclosures.

The principle accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied to all the years presented, unless otherwise stated.

Premium revenue / Commission expense

Premiums are recognized as income proportionally over the period of coverage of earthquake policies issued on a daily pro-rata basis. The portion of premium revenues that relates to the following period is accounted as the unearned premium reserve for each policy and on a daily basis. The commission expenses incurred in acquiring the unearned portion of premiums are deferred on the same basis as the premiums to which they relate.

Cost of reinsurance coverage

The reinsurance agreements entered into by the Institution with reinsurers under which institution is compensated for losses on one or more policies, and that meet the classification requirements for insurance contracts are classified as reinsurance contracts. The cost of reinsurance, mainly consisting of excess of loss premiums, is incurred on an accrual basis.

TURKISH NATURAL CATASTROPHE INSURANCE POOL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

NOTE 3 - SUMMARY OF SIGNIFICANT RELEVANT ACCOUNTING POLICIES (CONTINUED)

The excess of loss reinsurance agreements are renewed annually and cover twelve-months-period from November of prior year up to the end of October of the current year. Accordingly, the cost of reinsurance accounted for under the current year include 10-month-portion of the excess of loss premium related to the reinsurance agreement ending October 2017 and 2-month-portion of the excess of loss premium related to the reinsurance agreement ending October 2018. The cost of reinsurance accounted in the current year also includes excess of loss premium adjustment accrued with respect to related reinsurance agreements as well as brokerage fees paid to and incurred for related intermediaries.

The Institution, aims to provide protection against the financial risk which can be caused by a potential earthquake in İstanbul, by exporting USD 400,000,000 catastrophe bond with three-year maturity via Bosphorus 1 RE which was established in 2013, Bermuda. As of May 2016 catastrophe bond that the Institution issued has come to the maturity. As of August 2015 once again the Institution issued USD 100,000,000 amounted catastrophe bond with three-year maturity via Bosphorus Ltd established in Bermuda. For the catastrophic damages because of a potential earthquake in Istanbul expenses for this bond which provides maximum USD 100,000,000 amount of protection are accounted in reinsurance expenses.

Claims

The Institution make provision for outstanding claim due to the compensation cost which was accrued and located however not actually paid by the end of the period or if the cost is not calculated the Institution make provision for estimated and incurred but not reported cost. The Institution considered a ratio which calculated considering the last 5 years data of claims for calculation of incurred claims before the year ends incurred but not reported claims and divided this ratio to the incurred claims during the related periods. The Institution calculated the incurred but not reported claims for the period by dividing this ratio to the incurred claims 1 January to 31 December 2017.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over their estimated useful life based on the restated cost of such assets. The estimated useful lives of property and equipment are as follows:

The useful life of furniture and fixtures is 4-5 years.

TURKISH NATURAL CATASTROPHE INSURANCE POOL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

NOTE 3 - SUMMARY OF SIGNIFICANT RELEVANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment (Continued)

If book value of an asset is more than its estimated recoverable value, book value of that asset is discounted to its recoverable amount. Profit or loss occurred due to disposal of tangible assets are determined by comparing the book value and collected amount and included to the calculation of increase in fund reserve.

Maintenance and reparation expenses are accounted under the current income statement. But the investment expenses for extending the capacity of the tangible assets' future benefits are included in the cost of the tangible assets.

Intangible assets

Intangible assets consist of the acquired information systems, franchise rights and software. Intangible assets are carried at acquisition cost and amortised by the straight-line method over their estimated useful lives after their acquisition date. If impairment exists, carrying amount of the intangible assets is written down immediately to its recoverable amount. The useful life of intangible assets is 3-5 years.

Financial assets

The Institution classifies its financial assets as "Available-for-sale financial assets", "Financial assets at fair value through profit or loss" and "Loans and receivables". The classification of the financial assets is decided by the Institution management at initial recognition based on the purpose for which such assets were acquired and reviewed at reporting periods.

a) Available- for- sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either held as available for sale or not classified in any other categories. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, are classified as available-for-sale financial assets.

TURKISH NATURAL CATASTROPHE INSURANCE POOL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

NOTE 3 - SUMMARY OF SIGNIFICANT RELEVANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

Available - for - sale financial assets accounted with their fair value at first and for the following periods valued by their fair value based upon their market prices. If the underlying fair value of the fair value is not realized within the active market conditions, it is accepted that the fair value is not determined reliably and the "discounted value" calculated in accordance with the effective interest method is considered as fair value. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are accounted in the fair value reserve as a part of equity. When such financial assets are disposed or impaired, the accumulated fair value differences under equity are transferred to the income statement. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in income statement.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Institution intends to sell in the short term or that it has designated as at fair value through profit or loss or available-for-sale. Receivables arising from insurance contracts are classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables. Loans and receivables transferred through their provision for impairment deducted from cost value.

Foreign currency translation

Transactions in foreign currencies during the period are translated into Turkish Lira at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the Central Bank of Republic of Turkey exchange rates prevailing at the period end. Exchange gains and losses arising from translation of monetary assets and liabilities denominated in foreign currencies are included in the income statement.

Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

TURKISH NATURAL CATASTROPHE INSURANCE POOL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

NOTE 3 - SUMMARY OF SIGNIFICANT RELEVANT ACCOUNTING POLICIES (CONTINUED)

Fair value of financial instruments (Continued)

The classifications used by the Institution with respect to fair values of its financial assets and liabilities are disclosed below:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1),
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2),
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Available-for-sale financial assets and financial assets at fair value through profit or loss included in the balance sheet are the items that are recognised at fair value. Classification requires the utilisation of observable market data, if available.

TURKISH NATURAL CATASTROPHE INSURANCE POOL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

NOTE 3 - SUMMARY OF SIGNIFICANT RELEVANT ACCOUNTING POLICIES (CONTINUED)

Fair value of financial instruments (Continued)

The fair value classification of financial assets and liabilities measured at fair value in this framework is as follows:

31 December 2017	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	2,287,641,820	2,441,825,220	-	4,729,467,040
Total Financial Asset	2,287,641,820	2,441,825,220	-	4,729,467,040

31 December 2016	Seviye 1	Seviye 2	Seviye 3	Toplam
Available-for-sale financial assets	1,388,937,410	-	-	1,388,937,410
Total Financial Asset	1,388,937,410	-	-	1,388,937,410

The following methods and assumptions were used to estimate the fair value of the financial assets and liabilities for which it is practicable to estimate fair value:

Financial assets

The fair values of balances denominated in foreign currencies, which are translated at period end exchange rates, are considered to approximate their carrying values.

The carrying values of certain financial assets, including cash and cash equivalents along with the respective accrued interest are considered to approximate their fair values.

The fair values of available-for-sale financial assets and financial assets at fair value through profit or loss are determined by reference to the market values.

The carrying values of premiums receivable are considered to approximate their fair values due to their short-term nature.

TURKISH NATURAL CATASTROPHE INSURANCE POOL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

NOTE 4 - MANAGEMENT OF INSURANCE AND FINANCIAL RISK

Financial liabilities

The fair value of bank borrowings for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rates that are available to the Institution for similar borrowings.

Insurance risk

The Institution issues contracts (insurance policy) that carry insurance risk. This section summarises the risks associated with these contracts and how the Institution manages them.

The risk under insurance contracts is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of the insurance contracts, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Institution faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. The Institution management believes that the liability for claims carried at year-end is adequate.

The Institution is granting earthquake coverage to residential buildings. The payment ability of the Institution is limited to its accumulated funds and reinsurance protection that is purchased from the reinsurance market. The catastrophe model outputs are taken into consideration while setting the top limit and the priorities for the reinsurance protection. The limits are monitored in line with the aggregate developments as per the key zones. Premium amounts are based on pre-determined tariffs that vary according to the earthquake zones and types of buildings. The maximum guarantee provided for a residence via Compulsory Earthquake Insurance is TL 170,000 (31 December 2016: TL 160,000). In addition, The amount to be paid can not be lower than 75 TL, 65 TL, 55 TL, 45 TL and 35 TL according to the earthquake risk zone according to the fifth zone from the first zone (31 December 2016: TL 70, 60 TL, 50 TL, 40 TL and 30 TL). The Institution manages such risks through its underwriting strategy and reinsurance protection purchased via excess of loss reinsurance agreement.

TURKISH NATURAL CATASTROPHE INSURANCE POOL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

NOTE 4 - MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

Insurance risk (Continued)

The concentration of insurance risk (maximum insured loss) is summarised below:

	31 December 2017	31 December 2016
Istanbul Region	163,761,346,570	144,854,908,420
Other Regions	500,164,628,840	430,776,911,145
Total	663,925,975,410	575,631,819,565

The concentration of insurance risk in terms of geographical risk zones in Turkey, Zone 1 having the highest earthquake risk, is summarized below:

	31 December 2017	31 December 2016
Zone 1	295,136,798,395	255,346,254,315
Zone 2	168,349,031,655	147,546,045,430
Zone 3	81,132,931,810	69,574,532,085
Zone 4	112,283,983,740	97,432,076,290
Zone 5	7,023,229,810	5,732,911,445
Total	663,925,975,410	575,631,819,565

Financial risk factors

The Institution is exposed to financial risk through its financial assets, financial liabilities (borrowings) and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts and not covered by the reinsurance agreement. The most important components of the financial risk are market risk (includes interest rate risk and currency risk), credit risk and liquidity risk. The Institution's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise its potential adverse effects on the Institution's financial performance. Risk management is carried out by the Institution Administrator under policies regulated by certain legal arrangements and approved by the Board of Directors. Board of Directors considers the liquidity and credibility of the investments in the first place and seeks the maximisation of profitability on investments. The Institution does not use derivative financial instruments to hedge risk exposures.

TURKISH NATURAL CATASTROPHE INSURANCE POOL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

NOTE 4 - MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

a) Market risk

i. Interest rate risk

The Institution is exposed to interest rate risk through the impact of rate changes on interest bearing assets and liabilities. This risk is managed by using natural hedges that arise from balancing interest rate sensitive assets and liabilities.

Available-for-sale financial assets with variable interest rates expose the Institution to interest rate risk. As of December 2017, TL 360,816,371 of available - for - sale financial assets (31 December 2016: TL 505,078,468) are floating rated assets. As of 31 December 2016, if market interest rates on financial assets with variable interest rates were higher/lower by 1%, with all other variables held constant, as a result of higher/lower interest income on financial assets with variable rates, increase in fund reserve would be higher/lower by TL 5,742,321 (31 December 2016: TL 15,391,887).

The Institution does not have any other financial assets or liabilities with variable interest rates.

The analysis of contractual repricing dates of financial assets at the balance sheet dates are as follows:

31 December 2017	Up to 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Not subject to repricing	Total
Available - for - sale financial assets	2,091,133,009	1,371,563,877	913,850,852	352,919,302	-	4,729,467,040
Total	2,091,133,009	1,371,563,877	913,850,852	352,919,302	-	4,729,467,040

31 December 2016	Up to 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Not subject to repricing	Total
Available - for - sale financial assets	165,572,376	295,495,910	784,381,519	143,487,605	-	1,388,937,410
Total	165,572,376	295,495,910	784,381,519	143,487,605	-	1,388,937,410

TURKISH NATURAL CATASTROPHE INSURANCE POOL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

NOTE 4 - MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

ii. Foreign currency risk

The Institution is exposed to foreign exchange rate risk through the impact of rate changes at the translation of Turkish Lira pertaining to foreign currency denominated assets and liabilities. These risks are monitored and limited by the analysis of the foreign currency position (Note 20).

The Institution is exposed to foreign exchange risk primarily with respect to Euro and USD. The foreign currency risk analysis associated with these foreign currencies is as follows:

At 31 December 2017, if TL appreciated/depreciated by 10% against Euro, with all other variables held constant, as a result of foreign exchange gains/losses on the translation of Euro denominated assets and liabilities, equity would be higher/lower by TL 13,417,714 (31 December 2016: TL 2,179,417).

At 31 December 2017, if TL appreciated/depreciated by 10% against USD with all other variables held constant, as a result of foreign exchange losses/gains on the translation of USD denominated assets and liabilities, equity would be lower/higher by TL 575,216 (31 December 2016: TL 2,547,142).

iii. Price Risk

The Institution's available-for-sale financial assets with fixed interest rate are measured at market value as of 31 December 2017. If market prices increased/decreased by 5%, with all other variables held constant, equity would be higher/lower by TL 114,382,091 (31 December 2016: TL 69,446,871).

b) Credit risk

Ownership of financial assets involves the risk that counterparties may be unable to meet the terms of the agreements or will be unable to pay amounts in full when due. The Institution's exposure to credit risk arises mainly from banks deposits, financial assets, premium receivables from insurance companies and reinsurers' share of insurance liabilities.

TURKISH NATURAL CATASTROPHE INSURANCE POOL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

NOTE 4 - MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

b) Credit risk (Continued)

The assets bearing credit risk are analysed in the tables below using the ratings of rating institutions, namely Standard & Poor's ("S&P"), Moody's and Fitch:

i. Bank Deposits

S&P	31 December 2017			31 December 2016		
	TL	FC	Total	TL	FC	Toplam
B	30,325,175	-	30,325,175	727,412,645	-	727,412,645
Not Rated	911,720,930	15,492,960	927,213,890	2,451,044,305	26,132,466	2,477,176,771
Total	942,046,105	15,492,960	957,539,065	3,178,456,950	26,132,466	3,204,589,416

Moody's	31 Aralık 2017			31 Aralık 2016		
	TL	YP	Toplam	TL	YP	Toplam
NP	-	15,492,960	15,492,960	1,981,482,970	-	1,981,482,970
Not Rated	942,046,105	-	942,046,105	1,196,973,980	26,132,466	1,223,106,446
Total	942,046,105	15,492,960	957,539,065	3,178,456,950	26,132,466	3,204,589,416

Fitch	31 Aralık 2017			31 Aralık 2016		
	TL	YP	Toplam	TL	YP	Toplam
F3	942,043,924	-	942,043,924	3,178,439,728	26,132,466	3,204,572,194
B	2,181	15,492,960	15,495,141	17,222	-	17,222
Total	942,046,105	15,492,960	957,539,065	3,178,456,950	26,132,466	3,204,589,416

ii. Available-for-sale financial assets

31 December 2017	Amount	S&P	Moody's	Fitch
Short term - TL	2,742,297,900	B	-	-
Long term - TL	1,954,055,897	BB+	Ba1	BB+
Long-term- FC	33,113,243	BB+	Ba1	BB+
Total	4,729,467,040			

TURKISH NATURAL CATASTROPHE INSURANCE POOL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

NOTE 4 - MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

ii. Available-for-sale financial assets (Continued)

31 December 2016	Tutar	S&P	Moody's	Fitch
Short term - TL	289,633,442	B	-	-
Long term - TL	1,072,616,861	BB+	Ba1	BB+
Long-term- FC	26,687,107	BB+	Ba1	BB+
Total	1,388,937,410			

iii. Premium receivables

	31 December 2017	31 December 2016
Premium receivables from insurance companies	166,639,672	140,878,950
Provision for doubtful premium receivables	(1,994,783)	(1,994,783)
Total	164,644,889	138,884,167

The Institution has premium receivables from the insurance companies operating in Turkey which are subject to capital adequacy requirements of Treasury, main regulatory body regarding operational and financial activities of insurance companies in Turkey. Insurance premium receivables of the Institution are collected in accordance with Law related to the Procedures for the Collection of Public Receivables numbered 6183.

iv. Reinsurers' share of insurance liabilities

The Institution has excess of loss reinsurance agreements for the transfer of insurance risk through brokering panel in November 2016- October 2017 (included first 10 month of 2017) under the leadership of Türker Sigorta and Reasürans Brokerliği A.Ş. and in November 2017 - October 2018 (included first 2 month of 2017) under the leadership of Türker Sigorta, Reasürans Brokerliği A.Ş. and JLT Group Plc.

TURKISH NATURAL CATASTROPHE INSURANCE POOL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

NOTE 4 - MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

iv. Reinsurers' share of insurance liabilities (Continued)

The above-mentioned reinsurance agreement consists of different layers shared by various reinsurance companies and the reinsurance coverage amounts provided by these reinsurance companies in accordance with terms of the excess of loss reinsurance agreements as of 31 December 2017 and 2016 are as follows:

Limits to reinsurance coverage	EUR Foreign currency amount		TL equivalent	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Lower limit	350,000,000	400,000,000	1,580,425,000	1,483,960,000
Upper limit	3,000,000,000	3,250,000,000	13,546,500,000	12,057,175,000

Treasury letter on November 7, 2017, and numbered 28670; According to the 8th article of the Disaster Insurance Law numbered 6305; For the reinsurance and protection program for the period November 1, 2017 - October 31, 2018, the State shall provide the Institution with reinsurance support in excess of € 212,500,000 in excess of the amount of reinsurance redeemed in excess of 875,000,000 euros, the reinsurance premium payment to the Undersecretariat of Treasury amounting to 3,698,750 euros was settled by the Council of Ministers on 20 November 2017. As of 31 December 2017, the Undersecretariat of Treasury has reinsurance premium liability amounting to TL 16,701,706 (Note 11) in order to protect the reinsurance support of the related loss excess reinsurance.

The analysis of the credibility of the reinsurance companies with the highest risk shares with respect to the above-mentioned excess of loss reinsurance agreement using the ratings of rating institutions, as of 31 December 2017 and 2016 is as follows:

31 December 2017	S&P	Moody's	Fitch
Munich RE	AA-	Aa3	AA
Swiss RE	AA-	Aa3	-
Scor RE	AA-	Aa3	AA-
Hannover RE	AA-	-	-
31 December 2016	S&P	Moody's	Fitch
Munich RE	AA-	Aa3	AA
Swiss RE	AA-	Aa3	-
Scor RE	AA-	Aa3	AA-
Hannover RE	AA-	-	-

TURKISH NATURAL CATASTROPHE INSURANCE POOL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

NOTE 4 - MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

iv. Reinsurers' share of insurance liabilities (Continued)

The Institution, aims to provide protection against the financial risk which can be caused by a potential earthquake in İstanbul, by exporting USD 400,000,000 catastrophe bond with three-year maturity via Bosphorus 1 RE which was established in 2013. As of 3 May 2016 catastrophe bond that the Institution issued has come to the maturity.

The Institution, provided protection against the financial risks that can be arised by a potential earthquake in İstanbul, by exporting USD 100,000,000 catastrophe bond with three-year maturity via Bosphorus Ltd which was established in 2015, Bermuda. In the context of the related bond as of 31 December 2017 the Institution has a total of TL 8,885,450 of catastrophe bond premium payable (31 December 2016: TL 19,602,433) (Note 11).

c) Liquidity risk

The Institution uses its available cash resources to pay claims arising from insurance contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. Management sets the limits of the minimum level of funds available to meet such liabilities. Cash outflows due to the borrowing payments are managed by considering the amounts of unreserved cash flow from its operations. Hence, on one hand it is possible to pay debts with the cash generated from operating activities when necessary, and on the other hand, sufficient and reliable sources of high quality borrowings are available.

The tables below present a maturity analysis for the Institution's financial liabilities, on an undiscounted basis, in accordance with relevant maturity groupings based on the remaining period at the balance sheet dates to the expected or contractual maturity date:

	Contractual or expected cash flows					
31 December 2017	Up to 3 months	3 months - 1 year	1-5 years	Over 5 years	No maturity	Total
Liabilities						
Trade payables	104,954,836	72,790,271	-	-	-	177,745,107
Outstanding claims provision (*)	-	2,615,242	10,920,383	-	-	13,535,625
Total	104,954,836	75,405,513	10,920,383	-	-	191,280,732

TURKISH NATURAL CATASTROPHE INSURANCE POOL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

NOTE 4 - MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

c) Liquidity risk (Continued)

31 December 2016	Contractual or expected cash flows					Total
	Up to 3 months	3 months - 1 year	1 - 5 years	Over 5 years	No maturity	
Liabilities						
Trade payables	97,670,921	102,231,846	8,006,180	-	-	207,908,947
Outstanding claims provision (*)	-	1,176,663	9,013,475	-	-	10,190,138
Total	97,670,921	103,408,509	17,019,655	-	-	218,099,085

(*) Provision for outstanding claims is presented in the short term liabilities of accompanying financial statements.

Fund reserve risk management

The Institution's objectives when managing the fund reserve are to safeguard the Institution's ability to perform claim and borrowing payments including interests and to maximise the accumulation of fund reserve to maintain financial strength of the Institution so that the Institution can meet all commitments under its insurance contracts which are not covered by reinsurance agreements.

NOTE 5 - CASH AND CASH EQUIVALENTS

The Institution's time and demand deposits are placed in public banks in accordance with the regulation about the operation principles and procedures for the Turkish Catastrophe Insurance Pool.

	31 December 2017	31 December 2016
Bank deposits	957,539,065	3,204,589,416
Total	957,539,065	3,204,589,416

TURKISH NATURAL CATASTROPHE INSURANCE POOL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

NOTE 5 - CASH AND CASH EQUIVALENTS (CONTINUED)

Bank deposits are further analysed as follows:

	31 December 2017	31 December 2016
Bank deposits in TL		
- time deposits	941,907,870	3,178,262,024
- demand deposits	138,235	194,926
Foreign currency denominated bank deposits		
- time deposits	14,918,600	26,119,339
- demand deposits	574,360	13,127
Total	957,539,065	3,204,589,416

Foreign currencies denominated time deposits are as follows:

	Amount in foreign currency		TL equivalent	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
USD	3,955,195	7,346,692	14,918,600	25,854,478
EUR	-	71,393	-	264,861
Total	3,955,195	7,418,085	14,918,600	26,119,339

Maturities of time deposits are 1.5 (31 December 2016: 1.5 months) months and weighted average annual interest rates are as follows:

Interest rate per annum (%)	31 December 2017	31 December 2016
TL	11.75	9.76
USD	1.31	1.40
EUR	-	1.10

Cash and cash equivalents included in the statements of cash flows are as follows:

	Amount in foreign currency		TL equivalent	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
USD	38,005	3,730	143,351	13,127
EUR	95,451	-	431,009	-
Total	133,456	3,730	574,360	13,127

TURKISH NATURAL CATASTROPHE INSURANCE POOL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

NOTE 5 - CASH AND CASH EQUIVALENTS (CONTINUED)

Cash and cash equivalents included in the statements of cash flows are as follows:

	31 December 2017	31 December 2016
Cash and cash equivalents	957,539,065	3,204,589,416
Less: Interest accrued	(7,211,931)	(19,246,843)
Total cash and cash equivalents	950,327,134	3,185,342,573

NOTE 6 - AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 December 2017	31 December 2016
Available-for-sale financial assets		
- Government bonds and treasury bills	2,134,502,320	1,388,937,410
- Private sector bonds and treasury bills (*)	2,594,964,720	-
Total	4,729,467,040	1,388,937,410

(*) The private sector bonds and treasury bills held by the Institution are all composed of borrowing instruments issued by state banks.

As of 31 December 2017, the interest rate range of the available-for-sale financial assets is % 8.80 - % 13.30 for TL, %4.13 - %5.88 for EUR (31 December 2016: TL %8.80 - %10.70, EUR %4.13 - %5.88)

As of December 2017, TL 360,816,371 (31 December 2016: 505,078,468 TL) of available - for - sale financial assets are floating rated assets.

Movements of available - for - sale financial assets as follows:

	2017	2016
Beginning period - 1 January		668,974,812
Additions during the period	3,779,978,288	1,381,131,467
Disposals (Amortisation or sale) (-)	(508,354,691)	(662,371,083)
Decrease/increase of net book value of financial assets	68,906,033	1,202,214
Closing period - 31 December	4,729,467,040	1,388,937,410

TURKISH NATURAL CATASTROPHE INSURANCE POOL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

NOTE 6 - AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

The maturity analysis of financial assets is given in the following table:

31 December 2017	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	No maturity	Toplam
Government bonds and treasury bills	165,149,892	46,371,511	448,598,989	1,121,462,626	352,919,302	-	2,134,502,320
Private sector bonds and treasury bills	165,149,892	46,371,511	448,598,989	1,121,462,626	352,919,302	-	2,134,502,320
Total	2,045,556,762	607,789,861	601,738,489	1,121,462,626	352,919,302	-	4,729,467,040

31 December 2016	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	No maturity	Toplam
Government bonds and treasury bills	154,105,525	132,468,271	3,059,646	955,816,363	143,487,605	-	1,388,937,410
Total	154,105,525	132,468,271	3,059,646	955,816,363	143,487,605	-	1,388,937,410

NOTE 7 - PREMIUM RECEIVABLES

	31 December 2017	31 December 2016
Premium receivables from insurance companies	166,639,672	140,878,950
Provision for doubtful premium receivable (-)	(1,994,783)	(1,994,783)
Total	164,644,889	138,884,167

The average turnover of the Institution's premium receivables is 45 days (31 December 2016: 45 days).

The Institution does not have any impaired or overdue receivables as of 31 December 2017 and 2016.

Movements of provision for premium receivable are as follows:

	2017	2016
1 January	1,994,783	-
Additions during current period (*)	-	1,994,783
31 December	1,994,783	1,994,783

(*) Doubtful receivables expenses caused by additions during current period are presented in "Other expenses" in profit or loss table.

TURKISH NATURAL CATASTROPHE INSURANCE POOL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

NOTE 8 - OTHER CURRENT/NON CURRENT ASSETS

	31 December 2017	31 December 2016
Current assets		
Deferred reinsurance and cat-bond premiums	138,173,660	149,224,083
Brokerage fees related to the following months	1,444,020	927,475
Other prepaid expenses	112,234	83,805
	139,729,914	150,235,363
Fixed Assets		
Long-term cat-bond premiums	-	8,006,180
	-	8,006,180

Excess of loss premiums and brokerage fees related to the following months consist of the costs of reinsurance coverage received and brokerage fees for the subsequent period according to the reinsurance agreement in force.

NOTE 9 - PROPERTY AND EQUIPMENT

For the years ended 31 December 2017 and 31 December 2016, movement of the tangible assets are as follows:

	1 January 2017	Additions	Disposals	31 December 2017
Cost				
Fixed Assets	7,784,997	40,553	-	7,825,550
	7,784,997	40,553	-	7,825,550
Accumulated depreciation				
Fixed Assets	(7,743,910)	(8,111)	-	(7,752,021)
	(7,743,910)	(8,111)	-	(7,752,021)
Net book value	41,087			73,529
	1 January 2016	Additions	Disposals	31 December 2016
Cost				
Fixed Assets	7,743,036	41,961	-	7,784,997
	7,743,036	41,961	-	7,784,997
Accumulated depreciation				
Fixed Assets	(7,740,332)	(3,578)	-	(7,743,910)
	(7,740,332)	(3,578)	-	(7,743,910)
Net book value	2,704			41,087

TURKISH NATURAL CATASTROPHE INSURANCE POOL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

NOTE 10 - INTANGIBLE ASSETS

For the years ended 31 December 2017 and 31 December 2016, movement of the intangible assets are as follows:

	1 January 2017	Additions	Disposals	Transfers	31 December 2017
Cost					
Rights	25,537,135	1,881,482	-	-	27,418,617
Investment in progress (*)	22,341,300	2,917,725	-	-	25,259,025
	47,878,435	4,799,207	-	-	52,677,642

Accumulated amortisation

Rights	(11,364,909)	(7,903,366)	-	-	(19,268,275)
	(11,364,909)	(7,903,366)	-	-	(19,268,275)
Net book value	36,513,526				33,409,367

	1 January 2016	Additions	Disposals	Transfers	31 December 2016
Cost					
Rights	11,645,389	11,415,308	-	2,476,438	25,537,135
Investment in progress (*)	24,817,738	-	-	(2,476,438)	22,341,300
	36,463,127	11,415,308	-	-	47,878,435

Accumulated amortisation

Rights	(5,212,039)	(6,152,870)	-	-	(11,364,909)
	(5,212,039)	(6,152,870)	-	-	(11,364,909)
Net book value	31,251,088				36,513,526

(*) Investment in progress comprises of claim management software related to emergency disaster action plan which is not in use as of the reporting date.

TURKISH NATURAL CATASTROPHE INSURANCE POOL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

NOTE 11 - SHORT-TERM TRADE PAYABLES

	31 December 2017	31 December 2016
Short term trade payables		
Reinsurance payables (*)	167,689,076	187,284,690
Catastrophic bond payables (**)	8,885,450	11,596,253
Other	1,170,581	1,021,824
	177,745,107	199,902,767
Long term trade payables		
Catasrophic bond payables (**)	-	8,006,180
	-	8,006,180

(*) Reinsurance payables consist of the costs of reinsurance coverage to be paid in the subsequent period according to the reinsurance agreement in force and reinsurance premium liability amounting to TL 16,701,706 to the Undersecretariat of Treasury as explained in note 4.

(**) Catastrophic bond payables includes catastrophic bond payables for following periods.

NOTE 12 - INSURANCE PROVISIONS

12.1 Insurance provisions

	31 December 2017	31 December 2016
Unearned premium reserve	525,837,216	452,438,159
Reported claims provision	12,064,449	9,529,479
Outstanding claims provision (IBNR)	1,471,176	660,659
Toplam	539,372,841	462,628,297

12.2 Movements in insurance provisions

a) Unearned premium reserve

	31 December 2017	31 December 2016
Opening balance - 1 January	452,438,159	400,547,045
Premiums written during the year (Note 14)	1,020,022,795	876,177,398
Earned premiums during the year (Note 14)	(946,623,738)	(824,286,284)
Closing balance - 31 December	525,837,216	452,438,159

TURKISH NATURAL CATASTROPHE INSURANCE POOL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

NOTE 12 - SİGORTACILIK KARŞILIKLARI (CONTINUED)

12.2 Movements in insurance provisions (Continued)

b) Outstanding claims provision

	2017	2016
Opening balance - 1 January	10,190,138	12,933,621
Outstanding claim files notified during the year	3,107,605	478,336
Changes in paid claims and provisions (*)	(572,635)	(3,488,371)
Incurred but not reported claims	810,517	266,552
Closing balance - 31 December	13,535,625	10,190,138

(*) The amounts consist of paid amounts for outstanding claims in the beginning of the period and claim files closed without payment.

NOTE 13 - ACCUMULATED EARNINGS AND AVAILABLE - FOR - SALE FINANCIAL ASSETS

a) Accumulated fund reserve (Retained earnings)

The movements of accumulated fund reserve in the period are as follows:

	2017	2016
Opening balance - 1 January	4,360,144,653	3,527,914,697
Profit for the year (Earthquake reserve increase, net)	1,086,673,517	832,229,956
Closing balance - 31 December	5,446,818,170	4,360,144,653

According to 9th article of the Law numbered 6305 published in the Official Gazette dated 18 May 2012, the resources and accumulated fund reserve of the Institution can only be used in claim payments to policy holders, operational costs for the administration of the Institution, interest and principal payments for the repayment of debts received by the institution and commission payments to the Institution Administrator, reinsurance payments, hedging costs, payments regarding scientific research studies on the subject matters related to the Institution's jurisdiction, consultation payments, payments related to public relations and marketing campaigns, commission payments to authorized insurance companies and payments related to loss adjustment procedures.

TURKISH NATURAL CATASTROPHE INSURANCE POOL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

NOTE 13 - ACCUMULATED EARNINGS AND AVAILABLE - FOR - SALE FINANCIAL ASSETS (CONTINUED)

Accumulated fund reserve cannot be used except for the abovementioned payments and cannot be transferred to any other institution. Therefore accumulated fund reserves, which consist of the current and previous profits of the Institution, are represented as "accumulated earthquake reserves" in equity.

b) Revaluation surplus of available - for sale financial assets

The movements of fair value reserve in the period are as follows:

	2017	2016
Beginning of period - 1 January	(23,081,323)	(14,258,883)
Disposals arising from sales in the period, net	6,602,933	16,257,225
Additions arising from financial asset purchases in the period, net (-)	(27,970,547)	(25,079,665)
Closing balance - 31 December	(44,448,937)	(23,081,323)

NOTE 14 - EARNED PREMIUMS

	2017	2016
Premiums written	1,020,022,795	876,177,398
Unearned premium reserve (-) (Note 12)	(525,837,216)	(452,438,159)
Prior year unearned premium reserve (Note 12)	452,438,159	400,547,045
Total earned premiums	946,623,738	824,286,284

NOTE 15 - COST OF REINSURANCE COVERAGE

	2017	2016
Excess of loss reinsurance agreement premiums	174,333,742	162,584,109
Cat-bond premium	12,866,157	6,357,266
Excess of loss reinsurance agreement adjustment premiums	4,546,937	37,063,951
Brokerage fees related to excess of loss reinsurance agreements	1,307,502	944,307
Total	193,054,338	206,949,633

TURKISH NATURAL CATASTROPHE INSURANCE POOL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

NOTE 16 - COMMISSION EXPENSES

	2017	2016
Commissions paid to insurance companies	183,325,871	154,192,155
Prior year deferred commission expense	81,383,425	66,719,849
Deferred commission expense	(94,717,551)	(81,383,425)
Total	169,991,745	139,528,579

NOTE 17 - INCURRED CLAIMS

	2017	2016
Outstanding claims provision at the period-end	13,535,625	10,190,138
Claims paid in the period	7,402,216	6,986,990
Prior year outstanding claims provision	(10,190,138)	(12,933,621)
Total	10,747,703	4,243,507

NOTE 18 - GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
Information technology expenses	7,939,163	5,654,829
Depreciation and amortisation expenses (Notes 9 and 10)	7,911,477	6,156,448
Advertisement expenses	3,279,310	811,364
Expenses paid to the Institution Administrator	3,210,060	3,138,064
Bank expenses	2,546,657	752,135
Office expenses	1,043,630	946,505
Outsource services	619,344	925,095
Personnel expenses	523,561	285,552
Other	215,537	752,515
Total	27,288,739	19,422,507

TURKISH NATURAL CATASTROPHE INSURANCE POOL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

NOTE 19 - FINANCIAL INCOME, NET

	2017	2016
Sales income from marketable securities	393,998,781	120,826,269
Interest income, net	139,648,698	253,950,945
Reverse repurchase transaction	2,962,771	5,350,538
Net foreign exchange gains	3,966,959	-
Total financial income	540,577,209	380,127,752
Net foreign exchange loss (-)	-	(45,071)
Total financial expenses (-)	-	(45,071)
Financial income, net	540,577,209	380,082,681

NOTE 20 - FOREIGN CURRENCY POSITION

The assets and liabilities denominated in foreign currencies are as follows:

	31 December 2017	31 December 2016
Assets	48,606,203	210,977,310
Liabilities	(177,031,182)	(207,300,057)
Net foreign currency (liabilities)/assets position	(128,424,979)	3,677,253

	31 December 2017			
	USD	EUR	Diğer	Toplam
Cash and cash equivalents	15,061,951	431,009	-	15,492,960
Other current assets	-	33,113,243	-	33,113,243
Total Assets	15,061,951	33,544,252	-	48,606,203
Trade payables	(9,309,787)	(167,721,395)	-	(177,031,182)
Total Liabilities	(9,309,787)	(167,721,395)	-	(177,031,182)
Net foreign currency (liabilities)/assets position	5,752,164	(134,177,143)	-	(128,424,979)

TURKISH NATURAL CATASTROPHE INSURANCE POOL NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

NOTE 20 - FOREIGN CURRENCY POSITION (CONTINUED)

	31 December 2016			
	USD	EUR	Diğer	Toplam
Cash and cash equivalents	25,867,605	264,861	-	26,132,466
Other current assets	-	26,687,107	-	26,687,107
Other current and non-current assets	19,602,433	138,555,304	-	158,157,737
Total Assets	45,470,038	165,507,272	-	210,977,310
Trade payables	(19,998,614)	(187,301,443)	-	(207,300,057)
Total Liabilities	(19,998,614)	(187,301,443)	-	(207,300,057)
Net foreign currency (liabilities)/assets position	25,471,424	(21,794,171)	-	3,677,253

NOTE 21 - PROVISIONS AND CONTINGENT LIABILITIES

As of 31 December 2017, the total risk of litigation claims pending against the Institution amount to TL 9,449,208 (31 December 2016: TL 9,013,475). The total estimated ultimate cost of settling such litigation claims are provided for under claims provision in the balance sheet.

As of 31 December 2017 the Institution has TL 1,994,783 (31 December 2016: 1,994,783) litigation from proceeded and pending legal cases for collection of premium receivables and presented below provision for premium receivables in balance sheet.

NOTE 22 - SUBSEQUENT EVENTS

None.