



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

Millî Reasürans Türk Anonim Şirketi

31 December 2011

**Unconsolidated Financial Statements
Together With
Independent Auditors' Report Thereon**

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

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi

20 February 2012

*This report includes 2 pages of independent auditors'
report and 79 pages of financial information
together with their explanatory notes.*



**Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik A.Ş.**

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**Convenience Translation of the Independent Auditors' Report
Originally Prepared and Issued in Turkish (See Note 2.1.1)**

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Milli Reasürans Türk Anonim Şirketi

Introduction

We have audited the accompanying unconsolidated balance sheet of Milli Reasürans Türk Anonim Şirketi (the "Company") as at 31 December 2011 and the related unconsolidated statements of income, unconsolidated statement of changes in equity and unconsolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

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

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

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



Independent Auditors' Opinion

In our opinion, the accompanying unconsolidated financial statements give a true and fair view of the financial position of Milli Reasürans Türk Anonim Şirketi as at 31 December 2011, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with the accounting principles and standards (see *Note 2*) in force as per the insurance legislation.

Emphasis of matter

Without qualifying our opinion we would like to draw your attention to the following matter:

In accordance with the "Communiqué on Measurement and Assessment of Capital Adequacy for Insurance, Reinsurance and Individual Pension Companies" issued by Turkish Treasury on 19 January 2008 dated and 26761 numbered; the Company has a capital deficiency amounting to TL 112,665,252 as at 31 December 2011. The reasons of the capital deficiency and the Company's management assessments and precautions are detailed in Note 4.2. In this context, the financial information of the Company is prepared on a going concern basis.

Istanbul, 20 February 2012

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik AŞ

Murat Alsan, Certified Public Accountant
Partner

Additional paragraph for convenience translation to English:

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

MİLLÎ REASÜRANS TÜRK ANONİM ŞİRKETİ
UNCONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2011

We confirm that the unconsolidated financial statements and related disclosures and footnotes as at 31 December 2011 which were prepared in accordance with the accounting principles and standards in force as per the regulations of T.C. Başbakanlık Hazine Müsteşarlığı are in compliance with the "Code Related to the Financial Reporting of Insurance, Reinsurance and Private Pension Companies" and the financial records of our Company.

Istanbul, 20 February 2012

Şule SOYLU
Group Manager

Kemal ÇUHACI
Assistant
General Manager

Hasan Hulki YALÇIN
General Manager

Ertan TAN
Actuary

Erdal AKGÜL
Statutory
Auditor

Zeki DAVUT
Statutory
Auditor

Millî Reasürans Türk Anonim Şirketi
Unconsolidated Balance Sheet
As At 31 December 2011
(Currency: Turkish Lira (TL))

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

ASSETS			
I- Current Assets	Note	Audited Current Period 31 December 2011	Audited Prior Period 31 December 2010
A- Cash and Cash Equivalents	14	582,286,838	382,316,698
1- Cash	14	14,067	30,839
2- Cheques Received		-	-
3- Banks	14	582,272,771	382,285,859
4- Cheques Given and Payment Orders		-	-
5- Other Cash and Cash Equivalents		-	-
B- Financial Assets and Financial Investments with Risks on Policyholders	11	306,538,179	495,359,682
1- Available-for-Sale Financial Assets	11	220,587,319	311,451,890
2- Held to Maturity Investments		-	-
3- Financial Assets Held for Trading	11	85,950,860	183,907,792
4- Loans and Receivables		-	-
5- Provision for Loans and Receivables		-	-
6- Financial Investments with Risks on Life Insurance Policyholders		-	-
7- Company's Own Equity Shares		-	-
8- Diminution in Value of Financial Investments		-	-
C- Receivables from Main Operations	12	243,546,328	201,650,432
1- Receivables from Insurance Operations		-	-
2- Provision for Receivables from Insurance Operations		-	-
3- Receivables from Reinsurance Operations	12	133,950,306	96,816,861
4- Provision for Receivables from Reinsurance Operations		-	-
5- Cash Deposited to Insurance & Reinsurance Companies	12	109,596,022	104,833,571
6- Loans to the Policyholders		-	-
7- Provision for Loans to the Policyholders		-	-
8- Receivables from Private Pension Operations		-	-
9- Doubtful Receivables from Main Operations	4.2,12	3,408	-
10- Provision for Doubtful Receivables from Main Operations	4.2,12	(3,408)	-
D- Due from Related Parties		-	-
1- Due from Shareholders		-	-
2- Due from Associates		-	-
3- Due from Subsidiaries		-	-
4- Due from Joint Ventures		-	-
5- Due from Personnel		-	-
6- Due from Other Related Parties		-	-
7- Rediscount on Receivables from Related Parties		-	-
8- Doubtful Receivables from Related Parties		-	-
9- Provision for Doubtful Receivables from Related Parties		-	-
E- Other Receivables	12	209,412	1,624,792
1- Finance Lease Receivables		-	-
2- Unearned Finance Lease Interest Income		-	-
3- Deposits and Guarantees Given		57,275	1,598,438
4- Other Miscellaneous Receivables		152,137	26,354
5- Rediscount on Other Miscellaneous Receivables		-	-
6- Other Doubtful Receivables	12	28,088	16,621
7- Provision for Other Doubtful Receivables	4.2,12	(28,088)	(16,621)
F- Prepaid Expenses and Income Accruals		102,041,319	89,454,590
1- Prepaid Expenses	17	94,877,317	79,695,531
2- Accrued Interest and Rent Income		-	-
3- Income Accruals	4.2	7,164,002	9,759,059
4- Other Prepaid Expenses and Income Accruals		-	-
G- Other Current Assets		8,103,366	5,643,063
1- Stocks to be Used in the Following Months		35,200	25,966
2- Prepaid Taxes and Funds	12	7,788,397	5,340,746
3- Deferred Tax Assets		-	-
4- Job Advances	12	1,952	1,952
5- Advances Given to Personnel	12	-	290
6- Inventory Count Differences		-	-
7- Other Miscellaneous Current Assets		277,817	274,109
8- Provision for Other Current Assets		-	-
I- Total Current Assets		1,242,725,442	1,176,049,257

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

Millî Reasürans Türk Anonim Şirketi
Unconsolidated Balance Sheet
As At 31 December 2011
(Currency: Turkish Lira (TL))

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

ASSETS			
II- Non-Current Assets	Note	Audited Current Period 31 December 2011	Audited Prior Period 31 December 2010
A- Receivables from Main Operations		-	-
1- Receivables from Insurance Operations		-	-
2- Provision for Receivables from Insurance Operations		-	-
3- Receivables from Reinsurance Operations		-	-
4- Provision for Receivables from Reinsurance Operations		-	-
5- Cash Deposited for Insurance and Reinsurance Companies		-	-
6- Loans to the Policyholders		-	-
7- Provision for Loans to the Policyholders		-	-
8- Receivables from Individual Pension Business		-	-
9- Doubtful Receivables from Main Operations	4,2,12	9,833,504	8,374,541
10- Provision for Doubtful Receivables from Main Operations	4,2,12	(9,833,504)	(8,374,541)
B- Due from Related Parties		-	-
1- Due from Shareholders		-	-
2- Due from Associates		-	-
3- Due from Subsidiaries		-	-
4- Due from Joint Ventures		-	-
5- Due from Personnel		-	-
6- Due from Other Related Parties		-	-
7- Rediscount on Receivables from Related Parties		-	-
8- Doubtful Receivables from Related Parties		-	-
9- Provision for Doubtful Receivables from Related Parties		-	-
C- Other Receivables		-	-
1- Finance Lease Receivables		-	-
2- Unearned Finance Lease Interest Income		-	-
3- Deposits and Guarantees Given		-	-
4- Other Miscellaneous Receivables		-	-
5- Rediscount on Other Miscellaneous Receivables		-	-
6- Other Doubtful Receivables		-	-
7- Provision for Other Doubtful Receivables		-	-
D- Financial Assets	9	227,120,790	387,588,848
1- Investments in Equity Shares		-	-
2- Investments in Associates		-	-
3- Capital Commitments to Associates		-	-
4- Investments in Subsidiaries	9	227,120,790	387,588,848
5- Capital Commitments to Subsidiaries		-	-
6- Investments in Joint Ventures		-	-
7- Capital Commitments to Joint Ventures		-	-
8- Financial Assets and Financial Investments with Risks on Policyholders		-	-
9- Other Financial Assets		-	-
10- Impairment in Value of Financial Assets		-	-
E- Tangible Assets	6	46,124,814	47,311,213
1- Investment Properties	6,7	41,342,839	41,342,839
2- Impairment for Investment Properties		-	-
3- Owner Occupied Property	6	31,392,945	31,392,945
4- Machinery and Equipments		-	-
5- Furniture and Fixtures	6	3,356,360	2,504,628
6- Motor Vehicles	6	968,401	1,008,696
7- Other Tangible Assets (Including Leasehold Improvements)		-	-
8- Tangible Assets Acquired Through Finance Leases		-	-
9- Accumulated Depreciation	6	(30,935,731)	(28,937,895)
10- Advances Paid for Tangible Assets (Including Construction in Progress)		-	-
F- Intangible Assets	8	716,800	862,835
1- Rights	8	2,046,157	1,776,173
2- Goodwill		-	-
3- Pre-operating Expenses		-	-
4- Research and Development Costs		-	-
5- Other Intangible Assets		-	-
6- Accumulated Amortization	8	(1,329,357)	(913,338)
7- Advances Paid for Intangible Assets		-	-
G- Prepaid Expenses and Income Accruals		12,518	118,913
1- Prepaid Expenses		12,518	-
2- Income Accruals		-	-
3- Other Prepaid Expenses and Income Accruals		-	118,913
H- Other Non-Current Assets	21	78,191,494	9,337,784
1- Effective Foreign Currency Accounts		-	-
2- Foreign Currency Accounts		-	-
3- Stocks to be Used in the Following Years		-	-
4- Prepaid Taxes and Funds		-	-
5- Deferred Tax Assets	21	78,191,494	9,337,784
6- Other Miscellaneous Non-Current Assets		-	-
7- Amortization on Other Non-Current Assets		-	-
8- Provision for Other Non-Current Assets		-	-
II- Total Non-Current Assets		352,166,416	445,219,593
TOTAL ASSETS		1,594,891,858	1,621,268,850

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

Millî Reasürans Türk Anonim Şirketi
Unconsolidated Balance Sheet
As At 31 December 2011
(Currency: Turkish Lira (TL))

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

LIABILITIES			
III- Short-Term Liabilities	Note	Audited Current Period 31 December 2011	Audited Prior Period 31 December 2010
A- Financial Liabilities		-	-
1- Borrowings from Financial Institutions		-	-
2- Finance Lease Payables		-	-
3- Deferred Leasing Costs		-	-
4- Current Portion of Long Term Debts		-	-
5- Principal Installments and Interests on Bonds Issued		-	-
6- Other Financial Assets Issued		-	-
7- Valuation Differences of Other Financial Assets Issued		-	-
8- Other Financial Liabilities		-	-
B- Payables Arising from Main Operations	19	33,104,089	35,594,545
1- Payables Arising from Insurance Operations		-	-
2- Payables Arising from Reinsurance Operations		32,224,043	34,688,733
3- Cash Deposited by Insurance and Reinsurance Companies		880,046	905,812
4- Payables Arising from Pension Operations		-	-
5- Payables Arising from Other Operations		-	-
6- Discount on Payables from Other Operations		-	-
C-Due to Related Parties	19	124,614	116,511
1- Due to Shareholders	45	96,618	58,777
2- Due to Associates		-	-
3- Due to Subsidiaries		-	-
4- Due to Joint Ventures		-	-
5- Due to Personnel		-	-
6- Due to Other Related Parties	45	27,996	57,734
D- Other Payables	19	605,002	289,641
1- Deposits and Guarantees Received		13,500	-
2- Other Miscellaneous Payables	19	591,502	289,641
3- Discount on Other Miscellaneous Payables		-	-
E-Insurance Technical Provisions	17	1,064,935,125	741,152,048
1- Reserve for Unearned Premiums - Net	17	402,923,137	336,774,163
2- Reserve for Unexpired Risks- Net	17	68,909,804	10,533,898
3- Life Mathematical Provisions - Net	17	1,377,701	1,192,786
4- Provision for Outstanding Claims - Net	17	591,724,483	392,651,201
5- Provision for Bonus and Discounts – Net		-	-
6- Provisions for Policies Investment Risks of Which Belong to Life Insurance Policyholders – Net		-	-
7- Other Technical Provisions – Net		-	-
F- Provisions for Taxes and Other Similar Obligations	19	1,056,498	562,759
1- Taxes and Funds Payable		975,447	484,143
2- Social Security Premiums Payable		81,051	78,616
3- Overdue, Deferred or By Installment Taxes and Other Liabilities		-	-
4- Other Taxes and Similar Payables		-	-
5- Corporate Tax Payable	19	220,899	11,507,486
6- Prepaid Taxes and Other Liabilities Regarding Current Year Income	19	(220,899)	(11,507,486)
7- Provisions for Other Taxes and Similar Liabilities		-	-
G- Provisions for Other Risks	23	-	2,759,998
1- Provision for Employee Termination Benefits		-	-
2- Provision for Pension Fund Deficits		-	-
3- Provisions for Costs	23	-	2,759,998
H- Deferred Income and Expense Accruals	19	3,600,955	1,072,979
1- Deferred Income	10,19	939,343	718,698
2- Expense Accruals		2,661,612	354,281
3- Other Deferred Income and Expense Accruals		-	-
I- Other Short Term Liabilities		-	-
1- Deferred Tax Liabilities		-	-
2- Inventory Count Differences		-	-
3- Other Various Short Term Liabilities		-	-
III – Total Short Term Liabilities		1,103,426,283	781,548,481

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

Millî Reasürans Türk Anonim Şirketi
Unconsolidated Balance Sheet
As At 31 December 2011
(Currency: Turkish Lira (TL))

*Convenience Translation of Financial Statements
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LIABILITIES			
IV- Long-Term Liabilities	Note	Audited Current Period 31 December 2011	Audited Prior Period 31 December 2010
A- Financial Liabilities		-	-
1- Borrowings from Financial Institutions		-	-
2- Finance Lease Payables		-	-
3- Deferred Leasing Costs		-	-
4- Bonds Issued		-	-
5- Other Financial Assets Issued		-	-
6- Valuation Differences of Other Financial Assets Issued		-	-
7- Other Financial Liabilities		-	-
B- Payables Arising from Operating Activities		-	-
1- Payables Arising from Insurance Operations		-	-
2- Payables Arising from Reinsurance Operations		-	-
3- Cash Deposited by Insurance and Reinsurance Companies		-	-
4- Payables Arising from Pension Operations		-	-
5- Payables Arising from Other Operations		-	-
6- Discount on Payables from Other Operations		-	-
C- Due to Related Parties		-	-
1- Due to Shareholders		-	-
2- Due to Associates		-	-
3- Due to Subsidiaries		-	-
4- Due to Joint Ventures		-	-
5- Due to Personnel		-	-
6- Due to Other Related Parties		-	-
D- Other Payables		-	-
1- Deposits and Guarantees Received		-	-
2- Other Miscellaneous Payables		-	-
3- Discount on Other Miscellaneous Payables		-	-
E-Insurance Technical Provisions	17	14,370,512	15,842,048
1- Reserve for Unearned Premiums - Net		-	-
2- Reserve for Unexpired Risks- Net		-	-
3- Life Mathematical Provisions - Net		-	-
4- Provision for Outstanding Claims - Net		-	-
5- Provision for Bonus and Discounts – Net		-	-
6- Provisions for Policies Investment Risks of Which Belongs to Life Insurance Policyholders – Net		-	-
7- Other Technical Provisions – Net	17	14,370,512	15,842,048
F-Other Liabilities and Relevant Accruals		-	-
1- Other Liabilities		-	-
2- Overdue, Deferred or By Installment Taxes and Other Liabilities		-	-
3- Other Liabilities and Expense Accruals		-	-
G- Provisions for Other Risks	23	29,758,875	25,110,687
1- Provisions for Employment Termination Benefits	23	4,588,628	4,337,432
2- Provisions for Pension Fund Deficits	22,23	25,170,247	20,773,255
H-Deferred Income and Expense Accruals	19	66,667	78,024
1- Deferred Income	19	66,667	78,024
2- Expense Accruals		-	-
3- Other Deferred Income and Expense Accruals		-	-
I- Other Long Term Liabilities		-	-
1- Deferred Tax Liabilities		-	-
2- Other Long Term Liabilities		-	-
IV - Total Long Term Liabilities		44,196,054	41,030,759

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

Millî Reasürans Türk Anonim Şirketi
Unconsolidated Balance Sheet
As At 31 December 2011
(Currency: Turkish Lira (TL))

*Convenience Translation of Financial Statements
and Related Disclosures and Footnotes
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EQUITY			
V- Equity	Note	Audited Current Period 31 December 2011	Audited Prior Period 31 December 2010
A- Paid in Capital		615,000,000	525,000,000
1- (Nominal) Capital	2.13,15	615,000,000	525,000,000
2- Unpaid Capital		-	-
3- Positive Capital Restatement Differences		-	-
4- Negative Capital Restatement Differences		-	-
B- Capital Reserves	15	(5,367,227)	(357,479)
1- Share Premiums		-	-
2- Cancellation Profits of Equity Shares		-	-
3- Profit on Sale Assets That Will Be Transferred to Capital		-	-
4- Currency Translation Adjustments	15	(5,367,227)	(357,479)
5- Other Capital Reserves		-	-
C- Profit Reserves		(17,626,263)	215,985,403
1- Legal Reserves	15	49,622,694	42,856,487
2- Statutory Reserves	15	39,500,000	114,500,000
3- Extraordinary Reserves	15	5,512,899	4,124,316
4- Special Funds		-	-
5- Revaluation of Financial Assets	11,15	(112,261,856)	54,504,600
6- Other Profit Reserves		-	-
D- Retained Earnings		-	8,270,469
1- Retained Earnings		-	8,270,469
E- Accumulated Losses		-	(14,299,554)
1- Accumulated Losses		-	(14,299,554)
F-Net Profit/(Loss) for the Year		(144,736,989)	64,090,771
1- Net Profit for the Year		-	64,090,771
2- Net Loss for the Year		(144,736,989)	-
V- Total Equity		447,269,521	798,689,610
TOTAL EQUITY AND LIABILITIES		1,594,891,858	1,621,268,850

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

Millî Reasürans Türk Anonim Şirketi
Unconsolidated Statement of Income
For the Year Ended 31 December 2011
(Currency: Turkish Lira (TL))

*Convenience Translation of Financial Statements
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	Note	Audited Current Period 31 December 2011	Audited Prior Period 31 December 2010
I-TECHNICAL SECTION			
A- Non-Life Technical Income		898,125,471	857,743,242
1- Earned Premiums (Net of Reinsurer Share)			
1-1- Written Premiums (Net of Reinsurer Share)		889,617,820	756,169,542
1.1.1- Written Premiums, gross		974,558,187	837,494,731
1.1.2- Written Premiums, ceded		(84,940,367)	(81,325,189)
1.2- Change in Reserve for Unearned Premiums (Net of Reinsurer Shares and Less the Amounts Carried Forward)			
1.2.1- Reserve for Unearned Premiums, gross		(72,925,529)	16,016,992
1.2.2- Reserve for Unearned Premiums, ceded		7,228,821	228,710
1.3- Change in Reserve for Unexpired Risks (Net of Reinsurer Share and Less the Amounts Carried Forward)			
1.3.1- Reserve for Unexpired Risks, gross		(60,106,933)	(2,363,248)
1.3.2- Reserve for Unexpired Risks, ceded		1,731,027	92,845
2- Investment Income - Transferred from Non-Technical Section		68,568,485	73,126,412
3- Other Technical Income (Net of Reinsurer Share)		64,011,780	14,471,989
3.1- Other Technical Income, gross		64,011,780	14,471,989
3.2- Other Technical Income, ceded		-	-
B- Non-Life Technical Expense		(1,096,811,654)	(836,575,324)
1- Incurred Losses (Net of Reinsurer Share)			
1.1- Claims Paid (Net of Reinsurer Share)		(656,622,779)	(552,958,160)
1.1.1- Claims Paid, gross		(673,374,274)	(613,238,153)
1.1.2- Claims Paid, ceded		16,751,495	60,279,993
1.2- Change in Provisions for Outstanding Claims (Net of Reinsurer Share and Less the Amounts Carried Forward)			
1.2.1- Change in Provisions for Outstanding Claims, gross		(205,155,853)	(15,634,564)
1.2.2- Change in Provisions for Outstanding Claims, ceded		5,936,204	(47,605,226)
2- Change in Provision for Bonus and Discounts (Net of Reinsurer and Less the Amounts Carried Forward)			
2.1- Provision for Bonus and Discounts, gross		-	-
2.2- Provision for Bonus and Discounts, ceded		-	-
3- Change in Other Technical Reserves (Net of Reinsurer Share and Less the Amounts Carried Forward)			
29		1,669,500	(3,225,803)
4- Operating Expenses		(242,638,726)	(217,151,571)
C- Net Technical Income-Non-Life (A – B)		(198,686,183)	21,167,918
D- Life Technical Income		17,763,764	15,323,781
1- Earned Premiums (Net of Reinsurer Share)			
1.1- Written Premiums (Net of Reinsurer Share)		16,791,181	16,975,849
1.1.1- Written Premiums, gross		17,434,891	17,808,180
1.1.2- Written Premiums, ceded		(643,710)	(832,331)
1.2- Change in Reserve for Unearned Premiums (Net of Reinsurer Shares and Less the Amounts Carried Forward)			
1.2.1- Reserve for Unearned Premiums, gross		(214,301)	(2,863,455)
1.2.2- Reserve for Unearned Premiums, ceded		(237,965)	189,425
1.3- Change in Reserve for Unexpired Risks (Net of Reinsurer Share and Less the Amounts Carried Forward)			
1.3.1- Reserve for Unexpired Risks, gross		-	-
1.3.2- Reserve for Unexpired Risks, ceded		-	-
2- Investment Income		1,371,200	981,000
3- Unrealized Gains on Investments		-	-
4- Other Technical Income (Net of Reinsurer Share)		53,649	40,962

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

Millî Reasürans Türk Anonim Şirketi
Unconsolidated Statement of Income
For the Year Ended 31 December 2011
(Currency: Turkish Lira (TL))

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

	Note	Audited Current Period 31 December 2011	Audited Prior Period 31 December 2010
I-TECHNICAL SECTION			
E- Life Technical Expense			
1- Incurred Losses (Net of Reinsurer Share)		(6,677,005)	(7,811,396)
1.1- Claims Paid (Net of Reinsurer Share)	17,29	(6,823,372)	(5,506,322)
1.1.1- Claims Paid, gross	17	(6,840,714)	(7,247,252)
1.1.2- Claims Paid, ceded	10,17	17,342	1,740,930
1.2- Change in Provisions for Outstanding Claims (Net of Reinsurer Share and Less the Amounts Carried Forward)	17,29	146,367	(2,305,074)
1.2.1- Change in Provisions for Outstanding Claims, gross	17	17,103	(2,303,763)
1.2.2- Change in Provisions for Outstanding Claims, ceded	10, 17	129,264	(1,311)
2- Change in Provision for Bonus and Discounts (Net of Reinsurer and Less the Amounts Carried Forward)		-	-
2.1- Provision for Bonus and Discounts, gross		-	-
2.2- Provision for Bonus and Discounts, ceded		-	-
3- Change in Life Mathematical Provisions (Net of Reinsurer Share and Less the Amounts Carried Forward)	29	(184,915)	(351,797)
3.1- Change in Life Mathematical Provisions, gross	29	(184,915)	(351,797)
3.2- Change in Life Mathematical Provisions, ceded		-	-
4- Change in Provisions for Policies Investment Risks of Which Belongs to Life Insurance Policyholders (Net of Reinsurer Share and Less the Amounts Carried Forward)		-	-
4.1- Change in Provisions for Policies Investment Risks of Which Belongs to Life Insurance Policyholders, gross		-	-
4.2- Change in Provisions for Policies Investment Risks of Which Belongs to Life Insurance Policyholders, ceded		-	-
5- Change in Other Technical Reserves (Net of Reinsurer Share and Less the Amounts Carried Forward)	29	(197,964)	(233,007)
6- Operating Expenses	32	(8,139,589)	(6,471,239)
7- Investment Expenses		-	-
8- Unrealized Losses on Investments		-	-
9- Investment Income Transferred to the Non-Life Technical Section		-	-
F- Net Technical Income- Life (D – E)		2,564,291	456,342
G- Pension Business Technical Income			
1- Fund Management Income		-	-
2- Management Fee		-	-
3- Entrance Fee Income		-	-
4- Management Expense Charge in case of Suspension		-	-
5- Income from Private Service Charges		-	-
6- Increase in Value of Capital Allowances Given as Advance		-	-
7- Other Technical Expense		-	-
H- Pension Business Technical Expense			
1- Fund Management Expense		-	-
2- Decrease in Value of Capital Allowances Given as Advance		-	-
3- Operating Expenses		-	-
4- Other Technical Expenses		-	-
I- Net Technical Income - Pension Business (G – H)		-	-

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

Millî Reasürans Türk Anonim Şirketi
Unconsolidated Statement of Income
For the Year Ended 31 December 2011
(Currency: Turkish Lira (TL))

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

	Note	Audited Current Period 31 December 2011	Audited Prior Period 31 December 2010
II-NON-TECHNICAL SECTION			
C- Net Technical Income – Non-Life (A-B)		(198,686,183)	21,167,918
F- Net Technical Income – Life (D-E)		2,564,291	456,342
I - Net Technical Income – Pension Business (G-H)		-	-
J- Total Net Technical Income (C+F+I)		(196,121,892)	21,624,260
K- Investment Income		138,635,297	155,821,239
1- Income from Financial Assets	4.2	55,425,408	83,304,288
2- Income from Disposal of Financial Assets	4.2	41,762,980	34,127,461
3- Valuation of Financial Assets	4.2	(22,731,963)	(10,951,266)
4- Foreign Exchange Gains	4.2	26,162,503	13,194,409
5- Income from Associates	4.2	5,407,979	25,229,698
6- Income from Subsidiaries and Joint Ventures	4.2	5,733,312	-
7- Income from Property, Plant and Equipment	7	8,495,691	7,994,312
8- Income from Derivative Transactions	4.2	18,351,708	2,922,337
9- Other Investments	4.2	27,679	-
10- Income Transferred from Life Section		-	-
L- Investment Expense		(114,190,702)	(99,332,793)
1- Investment Management Expenses (inc. interest)	4.2	(678,809)	(2,318,291)
2- Diminution in Value of Investments		-	-
3- Loss from Disposal of Financial Assets	4.2	(6,485,612)	(4,560,125)
4- Investment Income Transferred to Non-Life Technical Section		(68,568,485)	(73,126,412)
5- Loss from Derivative Transactions	4.2	(26,555,378)	-
6- Foreign Exchange Losses	4.2	(5,258,045)	(12,267,278)
7- Depreciation and Amortization Expenses	6, 8	(2,193,843)	(2,267,924)
8- Other Investment Expenses		(4,450,530)	(4,792,763)
M- Income and Expenses From Other and Extraordinary Operations		27,161,207	(2,514,449)
1- Provisions	47	(6,121,647)	(1,893,897)
2- Rediscounts	47	(89,870)	(1,066,442)
3- Specified Insurance Accounts		-	-
4- Monetary Gains and Losses		-	-
5- Deferred Taxation (Deferred Tax Assets)	35	38,020,912	1,519,439
6- Deferred Taxation (Deferred Tax Liabilities)	35	(4,737,808)	(1,480,917)
7- Other Income		145,088	452,611
8- Other Expenses and Losses		(55,468)	(45,243)
9- Prior Year's Income		-	-
10- Prior Year's Expenses and Losses		-	-
N- Net Profit for the Year		(144,736,989)	64,090,771
1- Profit for the Year		(144,516,090)	75,598,257
2- Corporate Tax Provision and Other Fiscal Liabilities	35	(220,899)	(11,507,486)
3- Net Profit for the Year		(144,736,989)	64,090,771
4- Monetary Gains and Losses		-	-

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

Millî Reasürans Türk Anonim Şirketi
Unconsolidated Statement of Cash Flows
For the Year Ended 31 December 2011
(Currency: Turkish Lira (TL))

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

	Note	Audited Current Period 31 December 2011	Audited Prior Period 31 December 2010
A. Cash flows from operating activities			
1. Cash provided from insurance activities		-	-
2. Cash provided from reinsurance activities		1,075,487,665	913,302,705
3. Cash provided from private pension business		-	-
4. Cash used in insurance activities		-	-
5. Cash used in reinsurance activities		(1,076,158,036)	(761,169,939)
6. Cash used in private pension business		-	-
7. Cash provided from operating activities		(670,371)	152,132,766
8. Interest paid		-	-
9. Income taxes paid		(8,009,296)	(7,122,050)
10. Other cash inflows		6,873,774	4,378,781
11. Other cash outflows		(6,295,723)	(266,988,103)
12. Net cash provided from operating activities		(8,101,616)	(117,598,606)
B. Cash flows from investing activities			
1. Proceeds from disposal of tangible assets		41,430	-
2. Acquisition of tangible assets	6, 8	(876,422)	(1,031,006)
3. Acquisition of financial assets (*)	11	(474,472,686)	(740,425,313)
4. Proceeds from disposal of financial assets		638,940,328	579,914,368
5. Interests received		66,128,644	81,270,335
6. Dividends received		8,539,664	7,577,830
7. Other cash inflows		53,037,581	66,750,961
8. Other cash outflows		(105,615,724)	(23,936,146)
9. Net cash provided by / (used in) investing activities		185,722,815	(29,878,971)
C. Cash flows from financing activities			
1. Equity shares issued		-	-
2. Cash provided from loans and borrowings		-	-
3. Finance lease payments		-	-
4. Dividends paid		(34,906,896)	(51,627,390)
5. Other cash inflows		-	-
6. Other cash outflows		-	-
7. Net cash provided by financing activities		(34,906,896)	(51,627,390)
D. Effect of exchange rate fluctuations on cash and cash equivalents		942	569,651
E. Net increase /(decrease) in cash and cash equivalents		142,715,245	(198,535,316)
F. Cash and cash equivalents at the beginning of the year	14	380,259,745	578,795,061
G. Cash and cash equivalents at the end of the year	14	522,974,990	380,259,745

(*) Acquisition of financial assets amounting to TL 740,425,313 includes acquisition of financial assets amounting to TL 491,715,159 (Note 11) and acquisition of subsidiaries amounting to TL 248,710,154 (Note 9).

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

Millî Reasürans Türk Anonim Şirketi
Unconsolidated Statement of Changes in Equity
For the Year Ended 31 December 2011
(Currency: Turkish Lira (TL))

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

Audited Changes in Equity – 31 December 2010												
	Note	Paid-in Capital	Own Shares of the Company	Revaluation of Financial Assets	Inflation Adjustment	Currency Translation Adjustment	Legal Reserves	Statutory Reserves	Other Reserves and Retained Earnings	Net Profit for the Year	Retained Earnings	Total
I - Balance at the end of the previous year – 31 December 2009		385,000,000	-	42,359,636	-	-	30,583,364	91,000,000	143,102,206	88,924,641	-	780,969,847
II – Correction (*)	2.1.6	-	-	(4,737,412)	-	-	-	-	-	4,377,749	(11,836,115)	(12,195,778)
III – Restated balances (I+II) – 31 December 2009		385,000,000	-	37,622,224	-	-	30,583,364	91,000,000	143,102,206	93,302,390	(11,836,115)	768,774,069
A- Capital increase (A1+A2)		140,000,000	-	-	-	-	-	-	(140,000,000)	-	-	-
1- In cash		-	-	-	-	-	-	-	-	-	-	-
2- From reserves		140,000,000	-	-	-	-	-	-	(140,000,000)	-	-	-
B- Purchase of own shares		-	-	-	-	-	-	-	-	-	-	-
C- Gains or losses that are not included in the statement of income		-	-	-	-	-	-	-	-	-	-	-
D- Change in the value of financial assets		-	-	16,882,376	-	-	-	-	-	-	-	16,882,376
E- Currency translation adjustments		-	-	-	-	(357,479)	-	-	-	-	-	(357,479)
F- Other gains or losses		-	-	-	-	-	-	-	-	-	-	-
G- Inflation adjustment differences		-	-	-	-	-	-	-	-	-	-	-
H- Net profit for the year		-	-	-	-	-	-	-	-	64,090,771	-	64,090,771
I – Other reserves and transfers from retained earnings		-	-	-	-	-	12,273,123	23,500,000	1,022,110	(41,675,000)	5,807,030	927,263
J- Dividends paid		-	-	-	-	-	-	-	-	(51,627,390)	-	(51,627,390)
IV - Balance at the end of the year – 31 December 2010		525,000,000	-	54,504,600	-	(357,479)	42,856,487	114,500,000	4,124,316	64,090,771	(6,029,085)	798,689,610

Audited Changes in Equity – 31 December 2011												
	Note	Paid-in Capital	Own Shares of the Company	Revaluation of Financial Assets	Inflation Adjustment	Currency Translation Adjustment	Legal Reserves	Statutory Reserves	Other Reserves and Retained Earnings	Net Profit for the Year	Retained Earnings	Total
I - Balance at the end of the previous year – 31 December 2010		525,000,000	-	54,504,600	-	(357,479)	42,856,487	114,500,000	4,124,316	64,090,771	(6,029,085)	798,689,610
II – Correction		-	-	-	-	-	-	-	-	-	-	-
III – Restated balances (I+II) – 31 December 2010		525,000,000	-	54,504,600	-	(357,479)	42,856,487	114,500,000	4,124,316	64,090,771	(6,029,085)	798,689,610
A- Capital increase (A1+A2)		90,000,000	-	-	-	-	-	(90,000,000)	-	-	-	-
1- In cash		-	-	-	-	-	-	-	-	-	-	-
2- From reserves		90,000,000	-	-	-	-	-	(90,000,000)	-	-	-	-
B- Purchase of own shares		-	-	-	-	-	-	-	-	-	-	-
C- Gains or losses that are not included in the statement of income		-	-	-	-	-	-	-	-	-	-	-
D- Change in the value of financial assets		-	-	(166,766,456)	-	-	-	-	-	-	-	(166,766,456)
E- Currency translation adjustments		-	-	-	-	(5,009,748)	-	-	-	-	-	(5,009,748)
F- Other gains or losses		-	-	-	-	-	-	-	-	-	-	-
G- Inflation adjustment differences		-	-	-	-	-	-	-	-	-	-	-
H- Net profit for the year		-	-	-	-	-	-	-	-	(144,736,989)	-	(144,736,989)
I – Other reserves and transfers from retained earnings	38	-	-	-	-	-	6,766,207	15,000,000	1,388,583	(29,183,875)	6,029,085	-
J- Dividends paid	38	-	-	-	-	-	-	-	-	(34,906,896)	-	(34,906,896)
IV - Balance at the end of the year – 31 December 2011		615,000,000	-	(112,261,856)	-	(5,367,227)	49,622,694	39,500,000	5,512,899	(144,736,989)	-	447,269,521

(*) Refer to note 2.1.6.

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

Millî Reasürans Türk Anonim Şirketi
Unconsolidated Statement of Profit Distribution
For the Year Ended 31 December 2011
(Currency: Turkish Lira (TL))

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

	Note	Audited Current Period 31 December 2011 ^(*)	Audited Prior Period 31 December 2010
I. DISTRIBUTION OF THE PERIOD PROFIT			
1.1. PERIOD PROFIT		(144,516,090)	75,598,257
1.2. TAXES AND DUTIES PAYABLE	35	220,899	11,507,486
1.2.1. Corporate Tax (Income Tax)	35	220,899	11,507,486
1.2.2. Income Tax Deductions		-	-
1.2.3. Other Taxes and Legal Duties		-	-
A. CURRENT PERIOD PROFIT (1.1 – 1.2)		(144,736,989)	64,090,771
1.3. ACCUMULATED LOSSES (-)		-	(6,029,085)
1.4. FIRST LEGAL RESERVES (-)		-	(5,806,169)
1.5. OTHER STATUTORY RESERVES (-)		-	-
B. NET PROFIT AVAILABLE FOR DISTRIBUTION [(A - (1.3 + 1.4 + 1.5)]		-	52,255,517
1.6. FIRST DIVIDEND TO SHAREHOLDERS (-)		-	(5,806,169)
1.6.1. To owners of ordinary shares		-	(5,806,169)
1.6.2. To owners of privileged shares		-	-
1.6.3. To owners of redeemed shares		-	-
1.6.4. To holders profit sharing bonds		-	-
1.6.5. To holders of profit and loss sharing certificates		-	-
1.7. DIVIDENDS TO PERSONNEL (-)		-	(943,480)
1.8. DIVIDENDS TO FOUNDERS (-)		-	(1,100,727)
1.9. DIVIDENDS TO BOARD OF DIRECTORS (-)		-	-
1.10. SECOND DIVIDEND TO SHAREHOLDERS (-)		-	(28,000,000)
1.10.1. To owners of ordinary shares		-	(28,000,000)
1.10.2. To owners of privileged shares		-	-
1.10.3. To owners of redeemed shares		-	-
1.10.4. To holders profit sharing bonds		-	-
1.10.5. To holders of profit and loss sharing certificates		-	-
1.11. LEGAL RESERVES (-)		-	(960,038)
1.12. STATUTORY RESERVES(-)		-	(15,000,000)
1.13. EXTRAORDINARY RESERVES		-	-
1.14. OTHER RESERVES		-	(445,103)
1.15. SPECIAL FUNDS		-	-
II. DISTRIBUTION OF RESERVES			
2.1. APPROPRIATED RESERVES		-	-
2.2. SECOND LEGAL RESERVES (-)		-	-
2.3. DIVIDENDS TO SHAREHOLDERS (-)		-	-
2.3.1. To owners of ordinary shares		-	-
2.3.2. To owners of privileged shares		-	-
2.3.3. To owners of redeemed shares		-	-
2.3.4. To holders of profit sharing bonds		-	-
2.3.5. To holders of profit and loss sharing certificates		-	-
2.4. DIVIDENDS TO PERSONNEL (-)		-	-
2.5. DIVIDENDS TO BOARD OF DIRECTORS (-)		-	-
III. EARNINGS PER SHARE			
3.1. TO OWNERS OF ORDINARY SHARES		-	64,090,771
3.2. TO OWNERS OF ORDINARY SHARES (%)		-	12.2078
3.3. TO OWNERS OF PRIVILEGED SHARES		-	-
3.4. TO OWNERS OF PRIVILEGED SHARES (%)		-	-
IV. DIVIDEND PER SHARE			
4.1. TO OWNERS OF ORDINARY SHARES		-	33,806,169
4.2. TO OWNERS OF ORDINARY SHARES (%)		-	6.4393
4.3. TO OWNERS OF PRIVILEGED SHARES		-	-
4.4. TO OWNERS OF PRIVILEGED SHARES (%)		-	-

(*) Since the Company does not generate profit for the year ended 31 December 2011, the profit distribution table is not prepared.

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

Millî Reasürans Türk Anonim Şirketi

Notes to the Unconsolidated Financial Statements As at 31 December 2011

(Currency: Turkish Lira (TL))

1 General information

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

As at 31 December 2011, the shareholder having direct or indirect control over the shares of Millî Reasürans Türk Anonim Şirketi (the “Company”) is Türkiye İş Bankası AŞ Group (“İş Bankası”) having 76.64% of the outstanding shares.

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

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

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

1.3 Business of the Company

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

1.4 Description of the main operations of the Company

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

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

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

1 General information (continued)

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

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

	31 December 2011	31 December 2010
Senior managers	6	6
Managers	21	24
Officers	122	115
Contracted personnel	8	12
Other personnel	50	52
Total	207	209

1.6 Wages and similar benefits provided to the senior management

For the year ended 31 December 2011, wages and similar benefits provided to the senior management including chairman, members of the board of the directors, general manager, general coordinator, and deputy general managers is amounting to TL 4,051,161 (31 December 2010: TL 3,684,876).

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

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

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

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

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

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

The accompanying financial statements comprise only the unconsolidated financial information of the Company. As further discussed in note 2.2 - *Consolidation*, the Company has prepared consolidated financial statements as at 31 December 2011 separately.

1 General information (*continued*)

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

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

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

1.10 Subsequent events

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

2 Summary of significant accounting policies

2.1 Basis of preparation

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

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

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

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

“Circular Related to the Presentation of Financial Statements”, issued by the Turkish Treasury in the 18 April 2008 dated and 26851 numbered Official Gazette, regulates the content of the financial statements to make them comparable with the financial statements of previous periods and the other companies.

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

Additional paragraph for convenience translation to English

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

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

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

Accounting in hyperinflationary countries

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

With respect to the declaration of the Turkish Treasury with the article dated 4 April 2005 and numbered 19387, financial statements as of 31 December 2004 are adjusted for the opening balances of 2005 in accordance with the section with respect to inflation accounting of the Capital Markets Board (“CMB”) Communiqué No: 25 of Series XI, “Communiqué on Accounting Standards in Capital Market” published in the Official Gazette dated 15 January 2003 and numbered 25290. Inflation accounting is no longer applied starting from 1 January 2005, in accordance with the same declaration of the Turkish Treasury. Accordingly, as at 31 December 2011, non-monetary assets and liabilities and items included in shareholders’ equity including paid-in capital recognized or recorded before 1 January 2005 are measured as restated to 31 December 2004 in order to reflect inflation adjustments. Non-monetary assets and liabilities and items included in shareholders’ equity including paid-in capital recognized or recorded after 1 January 2005 are measured at their nominal values.

Other accounting policies

The Company recorded premiums, commissions and claims accruals based on the notifications sent by the insurance and reinsurance companies after the closing of their balances. Premiums, commissions and claims accruals are recorded in the accompanying financial statements with the three-month delay. Therefore, related income statement balances include last quarter results for the year ended 31 December 2010 and nine-month results as at and for the period ended 30 September 2011 and accordingly related balance sheet balances as at 31 December 2011 do not reflect the actual position. According to the letter dated 31 August 2010 and numbered B.02.1.HZN.0.10.03.01/42139 sent by the Turkish Treasury to the Company, it is stated that account statements sent by the ceding companies are subject to possible delays and the Turkish Treasury is considered special situations of the reinsurance companies in their regulations.

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

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.3 Functional and presentation currency

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

2.1.4 Rounding scale of the amounts presented in the financial statements

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

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

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

2.1.6 Accounting policies, changes in accounting estimates and errors

The Company has identified errors over the financial statements prepared as at 31 December 2009 and 1 January 2009; the opening balance sheet of 31 December 2009. These errors have been corrected by restating the prior year financial statements in accordance with TAS 8 - *Changes in Accounting Estimates and Errors*. The correction of error had the following impact on prior year financial statements and the opening balances.

The effects of the corrections over the equity in accordance with TAS 8 are as follows as at 1 January 2009:

	1 January 2009			
	Revaluation of financial assets	Prior year losses	Other reserves and net profit for the year	Total equity effect
<i>TAS 29</i> – Calculation of accumulated depreciation for tangible assets according to inflation accounting	-	(14,299,554)	-	(14,299,554)
<i>TAS 39</i> – Correction of valuation of financial assets	(165,550)	1,967,496	-	1,801,946
<i>TAS 12</i> – Correction of deferred corporate tax on financial assets	5,879,080	495,943	-	6,375,023
Total equity effect	5,713,530	(11,836,115)	-	(6,122,585)

2 Summary of significant accounting policies (continued)

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

The effects of the corrections over the net profit for the year, revaluation of financial assets and prior year losses are as follows as at 31 December 2009:

	31 December 2009			
	Net profit for the year	Revaluation of financial assets	Prior year losses and reserves	Total equity effect
As previously reported:	88,924,641	42,359,636	-	780,969,847
TAS 29 – Calculation of accumulated depreciation for tangible assets according to inflation accounting	-	-	(14,299,554)	(14,299,554)
TAS 39 – Correction of valuation of financial assets	2,047,565	(3,470,494)	1,967,496	544,567
TAS 12 – Correction of deferred corporate tax on financial assets	3,759,375	(1,266,918)	495,943	2,988,400
TAS 19 – Employee benefits	(1,429,191)	-	-	(1,429,191)
Total effects of the corrections	4,377,749	(4,737,412)	(11,836,115)	(12,195,778)
As restated	93,302,390	37,622,224	(11,836,115)	768,774,069

Besides the corrections presented at the above tables, some reclassifications over the financial statements as at 31 December 2009 are applied to conform to the Accounting Standards.

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

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

2 Summary of significant accounting policies (continued)

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

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

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

2 Summary of significant accounting policies (continued)

2.2 Consolidation

”Circular Related to the Preparation of the Consolidated Financial Statements of Insurance, Reinsurance and Individual Pension Companies” issued by the Turkish Treasury in the Official Gazette dated 31 December 2008 and numbered 27097 (“the Circular for Consolidation”) requires that insurance, reinsurance and individual pension companies issue consolidated financial statements starting from 31 March 2009.

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

In this context, financial statements of Anadolu Anonim Türk Sigorta Şirketi (“Anadolu Sigorta”) that is the Company's subsidiary, consolidated by the equity method, furthermore, the consolidated financial statements are prepared.

The Company has not consolidated Miltaş Turizm A.Ş., the subsidiary of the Company, based on the exception specified in the Circular for Consolidation; as the amount of total assets of such subsidiary was below 1% of total assets of the Company. The Company accounted for this subsidiary at cost as of 31 December 2011 and 2010.

In the 12 August 2008 dated and 2008/36 numbered “Sector Announcement Related to the Accounting of Subsidiaries, Associates and Joint Ventures in the Stand Alone Financial Statements of Insurance, Reinsurance and Individual Pension Companies” of the Turkish Treasury, it is stated that although insurance, reinsurance and individual pension companies are exempted from TAS 27 – *Consolidated and Separate Financial Statements*, subsidiaries, associates and joint-ventures could be accounted in accordance with TAS 39 – *Financial Instruments: Recognition and Measurement* or at cost in accordance with the 37th paragraph of TAS 27 – *Consolidated and Separate Financial Statements*. Parallel to the related sector announcements mentioned above, as at the reporting date the Company has accounted for its associate at fair value based on quoted market price.

2.3 Segment reporting

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

2.4 Foreign currency transactions

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

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

2 Summary of significant accounting policies (continued)

2.5 Tangible assets

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

Gains/losses arising from the disposal of the tangible assets are calculated as the difference between the net carrying value and the proceeds from the disposal of related tangible assets and reflected to the statement of income of the related year.

Maintenance and repair costs incurred in the ordinary course of the business are recorded as expense.

There are no pledges, mortgages and other encumbrances on tangible fixed assets.

There are no changes in accounting estimates that have significant effect on the current period or that are expected to have significant effect on the following periods.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of tangible assets since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Depreciation rates and estimated useful lives are as follows:

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

2 Summary of significant accounting policies (continued)

2.6 Investment property

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

Investment properties are measured initially at cost including transaction costs.

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

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

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the period of retirement or disposal.

2.7 Intangible assets

The Company's intangible assets consist of computer software.

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

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

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

2 Summary of significant accounting policies (continued)

2.8 Financial assets

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

Securities are recognized and derecognized at the date of settlement.

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

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

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

Held to maturity financial assets are the financial assets with fixed maturities and fixed or pre-determined payment schedules that the Company has the intent and ability to hold until maturity, excluding loans and receivables. Subsequent to initial recognition, held to maturity financial assets and loans and receivables are measured at amortized cost using effective interest rate method less impairment losses, if any.

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

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

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

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

2 Summary of significant accounting policies (continued)

2.9 Impairment on asset

Impairment on financial assets

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

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

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

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

Impairment on tangible and intangible assets

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

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

2.10 Derivative Financial Instruments

As of the reporting date, the Company does not have any derivative financial instruments. Derivative instruments are treated as held for trading financial assets in compliance with the standard TAS 39 – *Financial Instruments: Recognition and measurement*.

Derivative financial instruments are initially recognized at their fair value.

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

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

2 Summary of significant accounting policies (continued)

2.11 Offsetting of financial assets

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

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

2.12 Cash and cash equivalents

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

2.13 Capital

The shareholder having direct or indirect control over the shares of the Company is İş Bankası Group by having 76.64% of the outstanding shares of the Company.

As at 31 December 2011 and 2010, the share capital and ownership structure of the Company are as follows:

Name	31 December 2011		31 December 2010	
	Shareholding amount (TL)	Shareholding rate (%)	Shareholding amount (TL)	Shareholding rate (%)
Türkiye İş Bankası AŞ	471,323,817	76.64	402,349,600	76.64
Millî Reasürans TAŞ Mensupları Yardımlaşma Sandığı Vakfı	64,833,521	10.54	55,345,689	10.54
Groupama Emeklilik AŞ	36,163,765	5.88	30,871,507	5.88
T.C. Başbakanlık Hazine Müsteşarlığı	20,724,061	3.37	13,070,069	2.49
T.C. Ziraat Bankası AŞ	15,310,652	2.49	13,070,069	2.49
Others	6,644,184	1.08	10,293,066	1.96
Paid in capital	615,000,000	100.00	525,000,000	100.00

Sources of the capital increases during the year

Date	Amount	Cash	Reserves
14 April 2011	90,000,000	-	90,000,000
Date	Amount	Cash	Reserves
8 April 2010	140,000,000	-	140,000,000

As per the resolution of General Assembly held on 28 March 2011, the Company's nominal statutory share capital increased from TL 525,000,000 to TL 615,000,000 by TL 90,000,000 through transfer from statutory reserves. The registration of the increase in paid-in capital was completed on 14 April 2011.

2 Summary of significant accounting policies (continued)

2.13 Capital (continued)

Sources of the capital increases during the year (continued)

As per the resolution of General Assembly held on 26 March 2010, the Company's nominal statutory share capital increased from TL 385,000,000 to TL 525,000,000 by TL 140,000,000 through TL 137,655,806 as transfer from earthquake provision recorded under other reserves in the accompanying financial statements, TL 2,073,977 as transfer from profits on sales of real states and associates that will be transferred to capital and TL 270,217 transfer from extraordinary reserves. The registration of the increase in paid-in capital was completed on 8 April 2010. There is no capital increase in the previous year.

Privileges on common shares representing share capital

There are no privileges on common shares representing share capital.

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

Registered capital system in the Company

None.

Repurchased own shares by the Company

None.

2.14 Insurance and investment contracts - classification

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

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

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

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

2 Summary of significant accounting policies (continued)

2.15 Insurance contracts and investment contracts with discretionary participation feature

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

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

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

2.16 Investment contracts with DPF

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

2.17 Liabilities

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

2.18 Income taxes

Corporate tax

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

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

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

In accordance with the tax legislation, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods. As at 31 December 2011, the Company has deductible tax losses, amounting to TL 102,026,257 (31 December 2010: None).

In Turkey, there is no procedure for a final and definite agreement on tax assessments. Companies file their tax returns with their tax offices by the end of 25th of the fourth month following the close of the accounting period to which they relate. Tax returns are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

2 Summary of significant accounting policies (continued)

2.18 Income taxes (continued)

Deferred tax

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

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

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

Transfer pricing

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

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

2.19 Employee benefits

Pension and other post-retirement obligations

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

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

As per the temporary sub article No: 20 of the Article 73 of the Social Security Law, pension funds should be transferred to the Social Security Institution within three years after the publication of the aforementioned Law published in the Official Gazette numbered 26870 and dated 8 May 2008. The cash value of the obligations of the pension fund for each member of the fund including members left the fund as of the transfer date will be calculated according to following assumptions:

- Technical deficit rate of 9.8% shall be used in the actuarial calculation of the value in cash, and
- Gains and losses of the funds stems from benefits covered by the aforementioned Law taken into accounts to calculate present value of the obligations.

2 Summary of significant accounting policies (continued)

2.19 Employee benefits (continued)

Employee termination benefits

In accordance with existing Turkish Labour Law, the Company is required to make lump-sum termination indemnities to each employee who has completed one year of service with the Company and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. The computation of the liability is based upon the retirement pay ceiling announced by the Government. The applicable ceiling amount as at 31 December 2011 is TL 2,732 (31 December 2010: TL 2,517).

The Company accounted for employee severance indemnities using actuarial method in compliance with the TAS 19 – *Employee Benefits*. The major actuarial assumptions used in the calculation of the total liability as at 31 December 2011 and 2010 are as follows:

	31 December 2011	31 December 2010
Discount rate	3.77%	4.66%
Expected rate of salary/limit increase	5.00%	5.10%
Estimated employee turnover rate	5.26%	1.90%

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

Other benefits

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

2.20 Provisions

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

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

2 Summary of significant accounting policies (continued)

2.21 Revenue recognition

Written premiums

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

Claims paid

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

Commission income and expenses

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

Interest income and expenses

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

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

Trading income/expense

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

Dividends

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

2.22 Leasing transaction

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

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

2 Summary of significant accounting policies (continued)

2.23 Dividend distribution

As a result of the Ordinary General Meeting of the Company held on 28 March 2011, TL 64,090,771 of the net profit of the 2010 to be distributed through TL 33,806,169 to shareholders and TL 1,100,727 to founder shares after the allocation of legal reserves and statutory reserves from the net profit. As at and for the year ended 31 December 2010, dividends to the personnel amounting to TL 943,480 has been accounted for in the statement of income through recording in the current year's profits/losses in accordance with TAS 19 – Employee Benefits.

2.24 Reserve for unearned premiums

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

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

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

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

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

2 Summary of significant accounting policies (continued)

2.24 Reserve for unearned premiums (continued)

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

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

2.25 Provision for outstanding claims

Claims are recorded in the year in which they occur, based on reported claims or on the basis of estimates when not reported. Provision for outstanding claims represents the estimate of the total reported costs of notified claims on an individual case basis at the reporting date as well as the corresponding handling costs.

In accordance with the “Communiqué on Technical Reserves for Insurance, Reinsurance and Pension Companies and the Related Assets That Should Be Invested Against Those Technical Reserves” (“Communiqué on Technical Reserves”) which was issued in 27655 numbered and 28 July 2010 dated Official Gazette according to the Communiqué on Technical Reserves, all expenses related to the claim files including calculated or expected expertise, consultant, lawsuit and communication expenses in the calculation of provision for outstanding claims. In these calculations salvage and subrogation income are not considered.

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

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

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

2 Summary of significant accounting policies (continued)

2.25 Provision for outstanding claims (continued)

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

Branches	31 December 2011	31 December 2010
Fire and natural disasters	Standard Chain Ladder	Standard Chain Ladder
General losses	Standard Chain Ladder	Standard Chain Ladder
General liability	Standard Chain Ladder	Standard Chain Ladder
Third party liability for motor vehicles (MTPL)	Standard Chain Ladder	Standard Chain Ladder
Transportation	Standard Chain Ladder	Standard Chain Ladder
Water vehicles	Standard Chain Ladder	Standard Chain Ladder
Transportation vehicles (land)	Standard Chain Ladder	Standard Chain Ladder
Accident	Standard Chain Ladder	Standard Chain Ladder
Health	Standard Chain Ladder	Standard Chain Ladder
Transportation vehicles (rail)	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 9/2011)	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 9/2010)
Air crafts	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 9/2011)	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 9/2010)
Third party liability (water)	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 9/2011)	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 9/2010)
Third party liability (air)	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 9/2011)	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 9/2010)
Breach of trust	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 9/2011)	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 9/2010)
Financial losses	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 9/2011)	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 9/2010)
Legal protection	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 9/2011)	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 9/2010)
Credit	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 9/2011)	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 9/2010)
Life	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 9/2011)	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 9/2010)

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

The Company does not have sufficient data for third party liability on rail, air and water, aircraft, breach of trust, financial losses, legal protection, credit and life branches. Furthermore, claim development tables have irregular distribution for the aforementioned branches. Therefore, the Company prefers to use sector average in the actuarial chain ladder method.

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

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

2 Summary of significant accounting policies (continued)

2.25 Provision for outstanding claims (continued)

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

In accordance with the temporary articles of the Communiqué on Technical Reserves, companies may use at least 80% and 90% of the result of the IBNR calculated by ACML method or test IBNR for 2010 and 2011, respectively. 100% should be accounted in the financial statements as at 2012 although early implementation of 100% is permitted. Based on the gradual transition substance of third clause of temporary regulation B of communiqué numbered 2011/1, it is possible to use 82.5% for the first quarter, 85% for the second quarter, 87.5% for the third quarter and 90% for the last quarter of 2011. The same application is able to be done in 2012.

As at the reporting date, as a result of actuarial chain ladder method; the Company except Singapore branch recorded 90% of additional provision amounting to TL 39,805,662 (31 December 2010: TL 10,490,219) as provision for outstanding claims. As at the reporting date, TL 27,608,454 (31 December 2010: TL 8,675,567) of IBNR provision is recorded for Singapore branch.

2.26 Mathematical provisions

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

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

2 Summary of significant accounting policies (continued)

2.27 Reserve for unexpired risk

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

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

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

As at the reporting date, the Company has provided net reserve for unexpired risk amounting to TL 68,909,804 in the accompanying unconsolidated financial statements (31 December 2010: TL 10,533,898).

2 Summary of significant accounting policies (continued)

2.28 Equalization provision

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

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

Equalization provisions are presented under “other technical reserves” within long term liabilities in the accompanying unconsolidated financial statements.

2.29 Related parties

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

2.30 Earning per share

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

2 Summary of significant accounting policies (continued)

2.31 Subsequent events

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

2.32 New standards and interpretations not yet adopted

There are a number of new standards, updates related to the existing standards and interpretations which are not adopted in the preparation of the accompanying financial statements and have not yet entered into force for the accounting period 31 December 2011. These new standards are not expected to have any impact on the financial statements of the Company, with the exception of amendments to Communiqué on Technical Reserves, TFRS 9 – *Financial instruments*, amendments to TAS 1 – “*Presentation of Items of Other Comprehensive Income*”, revised TFRS 13 “*Fair Value Measurement*”, amended TAS 19 “*Employee Benefits*”, TFRS 10 *Consolidated Financial Statements* and TFRS 12 *Disclosure of Interests in Other Entities*.

Following clauses are amended in Communiqué on Technical Reserves which was issued in 27655 numbered and 28 July 2010 dated Official Gazette: Rather than 50% of the calculated negative IBNR balances per each insurance branch 100% will be taken into calculation. It is decided that income accrual for subrogation and salvage receivables will be taken into consideration in IBNR calculation by ACLM method by developing separate triangles. In order to prevent duplications in the calculation, collections from the previous years accruals should be excluded from the current years collections. It is stated that these regulations will be effective as at 1 January 2012.

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

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

An entity shall apply TFRS 9 for annually years beginning on or after 1 January 2015. An earlier application is permitted. If an entity adopts this TFRS in its financial statements for a period beginning before 1 January 2012, then prior periods are not needed to be restated.

Amendments to TAS 1 – “*Presentation of Items of Other Comprehensive Income*” are effective for annual periods beginning on or after 1 July 2012. The amendments to TAS 1 change only the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time would be presented separately from items which will never be reclassified.

Revised TFRS 13 “*Fair Value Measurement*” replaces the fair value measurement guidance contained in individual TFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other TFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. An entity shall apply TFRS 13 for annual periods beginning on or after 1 January 2013.

2 Summary of significant accounting policies (continued)

2.32 New standards and interpretations not yet adopted (continued)

The amended TAS 19 “*Employee Benefits*” is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. With very few exceptions retrospective application is required. Numerous changes or clarifications are made under the amended standard. Among these numerous amendments, the most important changes are removing the corridor mechanism and making the distinction between short-term and other long-term employee benefits based on expected timing of settlement rather than employee entitlement. The Company is in the process of assessing the impact of the new standard on the financial position or performance of the Company.

TFRS 10 *Consolidated Financial Statements* introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees. The standard is effective for annual periods beginning on or after 1 January 2013.

TFRS 12 *Disclosure of Interests in Other Entities* contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities. The standard is effective for annual periods beginning on or after 1 January 2013.

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

- TFRS 11 *Joint Arrangements* focuses on the rights and obligations of joint arrangements, rather than the legal form (as is currently the case) and supersedes TAS 31 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers*. The standard is effective for annual periods beginning on or after 1 January 2013.
- Amendments to TAS 12 *Deferred Tax: Recovery of Underlying Assets* introduce an exception to the general measurement requirements of TAS 12 *Income Taxes* in respect of investment properties measured at fair value. The standard is effective for annual periods beginning on or after 1 January 2012.
- TAS 27 *Separate Financial Statements* (2011) supersedes TAS 27 (2008). TAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The standard is effective for annual periods beginning on or after 1 January 2013.
- TAS 28 *Investments in Associates and Joint Ventures* (2011) supersedes TAS 28 (2008). TAS 28 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The standard is effective for annual periods beginning on or after 1 January 2013.

3 Critical accounting estimates and judgments in applying accounting policies

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

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

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

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

- Note 2.24* – Reserve for unearned premiums
- Note 2.25* – Provision for outstanding claims
- Note 2.27* – Reserve for unexpired risks
- Note 2.28* – Equalization provision
- Note 4.1* – Management of insurance risk
- Note 4.2* – Financial risk management
- Note 7* – Investment properties
- Note 9* – Investments in subsidiaries
- Note 10* – Reinsurance assets/liabilities
- Note 11* – Financial assets
- Note 12* – Loans and receivables
- Note 17* – Deferred acquisition costs
- Note 21* – Deferred income taxes

4 Management of insurance and financial risk

4.1 Management of insurance risk

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

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

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

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

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

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

Sensitivity to insurance risk

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

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

4 Management of insurance and financial risk (continued)

4.1 Management of insurance risk (continued)

Insurance risk concentrations

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

Branches	31 December 2011		
	Gross total claims liability (*)	Reinsurance share of total claims liability	Net total claims liability
Fire and natural disasters	209,516,153	(11,884,287)	197,631,866
Motor vehicles	124,173,112	(51,086)	124,122,026
General losses	132,583,504	(1,685,382)	130,898,122
Health	90,818,612	(218)	90,818,394
Motor vehicles liability (MTPL)	65,169,861	(166,551)	65,003,310
Water vehicles	17,540,894	(1,236,974)	16,303,920
Transportation	13,275,923	(742,412)	12,533,511
Accident	10,998,783	(344,969)	10,653,814
General responsibility	7,702,879	(637,915)	7,064,964
Life	6,840,714	(17,342)	6,823,372
Breach of trust	537,516	(71)	537,445
Air crafts	434,105	-	434,105
Financial losses	377,438	(1,162)	376,276
Credit	217,574	-	217,574
Water vehicles liability	17,402	(458)	16,944
Legal protection	10,518	(10)	10,508
Total	680,214,988	(16,768,837)	663,446,151

Branches	31 December 2010		
	Gross total claims liability (*)	Reinsurance share of total claims liability	Net total claims liability
Fire and natural disasters	163,076,127	(55,445,604)	107,630,523
Motor vehicles	132,673,114	(6,135)	132,666,979
Health	127,002,922	(2,180)	127,000,742
General losses	81,656,841	(2,219,900)	79,436,941
Motor vehicles liability (MTPL)	64,236,364	(100,272)	64,136,092
Water vehicles	20,635,832	(1,173,208)	19,462,624
Transportation	11,369,446	(645,740)	10,723,706
General responsibility	6,065,338	(454,687)	5,610,651
Life	7,247,252	(1,740,931)	5,506,321
Accident	5,332,773	(62,511)	5,270,262
Financial losses	622,435	(169,332)	453,103
Air crafts	277,605	-	277,605
Breach of trust	157,872	(48)	157,824
Credit	121,830	-	121,830
Legal protection	7,826	(375)	7,451
Water vehicles liability	1,828	-	1,828
Total	620,485,405	(62,020,923)	558,464,482

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

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

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

4 Management of insurance and financial risk (continued)

4.2 Management of financial risk

Introduction and overview

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

- credit risk
- liquidity risk
- market risk

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

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

Credit risk

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

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

Doubtful receivables are monitored quarterly.

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

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

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

	31 December 2011	31 December 2010
Cash and cash equivalents (Note 14)	582,272,771	382,285,859
Receivables from main operations (Note 12)	243,546,328	201,650,432
Financial assets and financial investments with risks on policyholders (Note 11) (*)	238,179,715	407,237,821
Reinsurer share in provision for outstanding claims (Note 10), (Note 17)	39,326,332	33,260,864
Prepaid taxes and funds (Note 12)	7,788,397	5,340,746
Income accruals	7,164,002	9,759,059
Other receivables (Note 12)	209,412	1,624,792
Other current asset (Note 12)	1,952	2,242
Total	1,118,488,909	1,041,161,815

(*) Equity shares amounting to TL 68,358,464 are not included (31 December 2010: TL 88,121,861).

4 Management insurance and financial risk (continued)

4.2 Management of financial risk (continued)

Credit risk (continued)

31 December 2011 ve 2010, the aging of the receivables from main operations and related provisions are as follows:

	31 December 2011		31 December 2010	
	Gross amount	Provision	Gross amount	Provision
Not past due	145,690,275	-	80,153,485	-
Past due 0-30 days	63,479,570	-	97,575,123	-
Past due 31-60 days	3,968,710	-	3,706,115	-
Past due 61-90 days	15,896,583	-	2,811,224	-
More than 90 days	24,348,102	(9,836,912)	25,779,026	(8,374,541)
Total	253,383,240	(9,836,912)	210,024,973	(8,374,541)

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

	31 December 2011	31 December 2010
Provision for receivables from insurance operations at the beginning of the year	8,374,541	8,224,472
Collections during the period (Note 47)	(33,789)	(23,292)
Impairment losses provided during the period (Note 47)	1,496,160	173,361
Provision for receivables from insurance operations at the end of the year	9,836,912	8,374,541

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

	31 December 2011	31 December 2010
Provision for other receivables at the beginning of the year	16,621	-
Collections during the period (Note 47)	(5,032)	-
Impairment losses provided during the period (Note 47)	16,499	16,621
Provision for other receivables at the end of the year	28,088	16,621

Liquidity risk

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

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

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

4 Management of insurance and financial risk (continued)

4.2 Management of financial risk (continued)

Liquidity risk (continued)

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

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

Management of the liquidity risk

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

Maturity distribution of monetary assets and liabilities:

31 December 2011	Carrying amount	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
Cash and cash equivalents	582,286,838	475,880,254	79,423,249	14,876,775	12,106,560	-
Receivables from main operations	243,546,328	106,252,277	63,726,163	6,746,059	66,821,829	-
Financial assets ^(*)	238,179,715	21,078,879	2,665,074	-	13,291,511	201,144,251
Other receivables and current assets	15,163,763	15,104,536	1,952	-	57,275	-
Total monetary assets	1,079,176,644	618,315,946	145,816,438	21,622,834	92,277,175	201,144,251
Insurance technical provisions ^(**)	591,724,483	591,724,483	-	-	-	-
Payables arising from main operations	33,104,089	20,940,824	11,664,430	498,835	-	-
Provisions for other risks and expense accruals	32,420,488	-	2,661,613	-	-	29,758,875
Due to related parties	124,614	124,614	-	-	-	-
Other liabilities	605,002	591,502	-	13,500	-	-
Total monetary liabilities	657,978,676	613,381,423	14,326,043	512,335	-	29,758,875

^(*) Equity shares amounting to TL 68,358,464 are not included.

^(**) Provision for outstanding claims not subject to consistent distribution is presented in the "up to 1 month" column.

4 Management of insurance and financial risk (continued)

4.2 Management of financial risk (continued)

Liquidity risk (continued)

31 December 2010	Carrying amount	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
Cash and cash equivalents	382,316,698	335,359,291	26,748,732	10,478,298	9,730,377	-
Financial assets ^(*)	407,237,821	14,669,731	-	7,889,161	30,725,798	353,953,131
Receivables from main operations	201,650,432	156,283,485	3,032,545	3,164,993	39,169,409	-
Other receivables and current assets	16,726,839	15,099,805	2,242	-	1,624,792	-
Total monetary assets	1,007,931,790	521,412,312	29,783,519	21,532,452	81,250,376	353,953,131
Insurance technical provisions ^(**)	392,651,201	392,651,201	-	-	-	-
Payables arising from main operations	35,594,545	35,536,469	58,076	-	-	-
Provisions for other risks and expense accruals	28,224,966	354,281	698,317	2,061,681	-	25,110,687
Other liabilities	289,641	289,641	-	-	-	-
Due to related parties	116,511	116,511	-	-	-	-
Total monetary liabilities	456,876,864	428,948,103	756,393	2,061,681	-	25,110,687

^(*) Equity shares amounting to TL 88,121,861 are not included.

^(**) Provision for outstanding claims not subject to consistent distribution is presented in the "up to 1 month" column.

Market risk

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

Foreign currency risk

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

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

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

31 December 2011	US Dollar	Euro	Other currencies	Total
Assets:				
Cash and cash equivalents	63,786,654	7,630,776	16,939,125	88,356,555
Financial assets and financial investments with risks on policyholders	22,762,704	7,273,031	-	30,035,735
Receivables from main operations	48,412,584	68,585,838	76,143,900	193,142,322
Total foreign currency assets	134,961,942	83,489,645	93,083,025	311,534,612
Liabilities:				
Payables arising from main operations	(6,764,498)	(5,329,566)	-	(12,094,064)
Insurance technical provisions ^(*)	(106,064,773)	(91,631,486)	(80,911,603)	(278,607,862)
Total foreign currency liabilities	(112,829,271)	(96,961,052)	(80,911,603)	(290,701,926)
Net on-balance sheet position	22,132,671	(13,471,407)	12,171,422	20,832,686

4 Management of insurance and financial risk (continued)

4.2 Management of financial risk (continued)

Market risk (continued)

Foreign currency risk (continued)

31 December 2010	US Dollar	Euro	Other currencies	Total
Assets:				
Cash and cash equivalents	48,158,088	24,140,565	8,192,211	80,490,864
Financial assets and financial investments with risks on policyholders	25,266,911	14,122,462	-	39,389,373
Receivables from main operations	47,636,127	53,320,662	78,180,401	179,137,190
Total foreign currency assets	121,061,126	91,583,689	86,372,612	299,017,427
Liabilities:				
Payables arising from main operations	(4,457,040)	(5,432,606)	(310)	(9,889,956)
Insurance technical provisions (*)	(54,975,645)	(62,359,340)	(20,508,482)	(137,843,467)
Total foreign currency liabilities	(59,432,685)	(67,791,946)	(20,508,792)	(147,733,423)
Net on-balance sheet position	61,628,441	23,791,743	65,863,820	151,284,004

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

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

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

	At the end of the period		Average	
	US Dollar	Euro	US Dollar	Euro
31 December 2011	1.8889	2.4438	1.6700	2.3224
31 December 2010	1.5460	2.0491	1.5001	1.9987

Exposure to foreign currency risk

A 10 percent depreciation of the TL against the following currencies as at 31 December 2011 and 2010 would have increased or decreased equity and profit or loss (excluding tax effects) by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. In case of a 10 percent appreciation of the TL against the following currencies, the effect will be in opposite direction.

	31 December 2011		31 December 2010	
	Profit or loss	Equity (*)	Profit or loss	Equity (*)
US Dollar	2,213,267	2,213,267	6,162,844	6,162,844
Euro	(1,347,141)	(1,347,141)	2,379,174	2,379,174
Others	1,217,142	1,217,142	6,586,382	6,586,382
Total, net	2,083,268	2,083,268	15,128,400	15,128,400

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

4 Management of insurance and financial risk (continued)

4.2 Management of financial risk (continued)

Market risk (continued)

Exposure to interest rate risk

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

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

	31 December 2011	31 December 2010
<i>Financial assets with fixed interest rates:</i>	667,651,963	671,062,097
Cash at banks (Note 14)	576,194,799	378,635,000
Available for sale financial assets – Government bonds – TL (Note 11)	57,143,647	192,182,585
Available for sale financial assets – Private sector bonds – TL (Note 11)	11,550,813	-
Financial assets held for trading – Eurobonds (Note 11)	22,762,704	21,874,336
Financial assets held for trading – Government bonds– TL (Note 11)	-	70,481,015
Financial assets held for trading – Government bonds – FC (Note 11)	-	7,889,161
<i>Financial assets with variable interest rate:</i>	125,643,672	104,637,579
Available for sale financial assets – Government bonds– TL (Note 11)	83,320,169	61,873,242
Available for sale financial assets – Private sector bonds – TL (Note 11)	21,739,385	-
Financial assets held for trading – Private sector bonds – TL (Note 11)	14,342,393	6,907,133
Financial assets held for trading – Government bonds – TL (Note 11)	6,241,725	35,857,204
<i>Financial liabilities:</i>	None.	None.

Interest rate sensitivity of the financial instruments

Interest rate sensitivity of the statement of income is the effect of the assumed changes in interest rates on the fair values of financial assets at fair value through profit or loss and on the net interest income as at and for 31 December 2011 and 2010 of the floating rate non-trading financial assets and financial liabilities held at 31 December 2011 and 2010. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2011				
Financial assets held for trading	(110,193)	113,692	(110,193)	113,692
Available for sale financial assets	-	-	(3,052,003)	3,294,996
Total, net	(110,193)	113,692	(3,162,196)	3,408,688
31 December 2010				
Financial assets held for trading	(1,030,147)	1,061,371	(1,030,147)	1,061,371
Available for sale financial assets	-	-	(6,720,312)	7,041,522
Total, net	(1,030,147)	1,061,371	(7,750,459)	8,102,893

4 Management of insurance and financial risk (continued)

4.2 Management of financial risk (continued)

Market risk (continued)

Fair value information

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

The Company has classified its financial assets as whether held for trading purpose or available for sale. As at the reporting date, available for sale financial assets and financial assets held for trading are measured at their fair values based on their quoted prices or fair value information obtained from brokers in the accompanying unconsolidated financial statements.

Management estimates that the fair value of other financial assets and liabilities are not materially different than their carrying values.

Classification relevant to fair value information

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

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

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

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

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

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

	31 December 2011			Total
	Level 1	Level 2	Level 3	
Financial assets:				
Financial assets held for trading (Note 11)	85,950,860	-	-	85,950,860
Available for sale financial assets (Note 11) (*)	216,120,102	-	-	216,120,102
Subsidiaries (Note 9) (**)	226,374,583	-	-	226,374,583
Total financial assets	528,445,545	-	-	528,445,545

(*) As at 31 December 2011, securities that are not publicly traded amounting to TL 4,467,217 have been measured at cost.

(**) As at 31 December 2011, subsidiaries that are not publicly traded amounting to TL 746,207 have been measured at cost.

4 Management of insurance and financial risk (continued)

4.2 Management of financial risk (continued)

Market risk (continued)

	31 December 2010			Total
	Level 1	Level 2	Level 3	
Financial assets:				
Financial assets held for trading (Note 11)	183,907,792	-	-	183,907,792
Available for sale financial assets (Note 11) (*)	306,985,724	-	-	306,985,724
Subsidiaries (Note 9) (**)	386,842,641	-	-	386,842,641
Total financial assets	877,736,157	-	-	877,736,157

(*) As at 31 December 2010, securities that are not publicly traded amounting to TL 4,466,166 have been measured at cost.

(**) As at 31 December 2010, subsidiaries that are not publicly traded amounting to TL 746,207 have been measured at cost.

Equity share price risk

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

The effect of changes in fair values of the associates and the available-for-sale financial assets on equity that is resulted from the fluctuations on index (all of the other variables are assumed to be fixed) are as follows as at 31 December 2011 and 2010.

	Change in index	31 December 2011	31 December 2010
Market price of equity	10%	26,874,067	43,977,254

The effect of changes in fair values of the financial assets held for trading on profit or loss that is resulted from the fluctuations on index (all of the other variables are assumed to be fixed) are as follows as at 31 December 2011 and 2010.

	Change in index	31 December 2011	31 December 2010
Market price of equity	10%	2,152,516	3,072,580

4 Management of insurance and financial risk (continued)

4.2 Management of financial risk (continued)

Market risk (continued)

Gain and losses from financial assets

<i>Gains and losses recognized in the statement of income, net:</i>	31 December 2011	31 December 2010
Gains transferred from the statement of equity to the statement of income on disposal of available for sale financial assets (Note 15)	22,041,441	6,494,858
Interest income from bank deposits	40,845,891	44,245,050
Foreign exchange gains	26,162,503	13,194,409
Income from subsidiaries	5,733,312	-
Interest income from debt securities classified as available-for-sale financial assets	12,946,344	32,214,159
Interest income from participates	5,407,979	25,229,698
Income from equity shares	460,464	6,171,276
Interest income from debt securities classified as held for trading financial assets	1,511,834	14,700,096
Interest income from repos	355,202	306,639
Other	14,674,636	5,270,742
Investment income	130,139,606	147,826,927
Loss from derivative transactions	(26,555,378)	-
Foreign exchange losses	(5,258,045)	(12,267,278)
Loss from disposal of financial assets	(6,485,612)	(4,560,125)
Investment management expenses (including interest)	(678,809)	(2,318,291)
Investment expenses	(38,977,844)	(19,145,694)
Investment income, net	91,161,762	128,681,233
<i>Gains and losses recognized in the statement of equity, net:</i>	31 December 2011	31 December 2010
Fair value changes in available for sale financial assets (Note 15)	(184,703,909)	23,186,347
Gains transferred from the statement of equity to the statement of income on disposal of available for sale financial assets (Note 15)	(22,041,441)	(6,494,858)
Total	(206,745,350)	16,691,489

4 Management of insurance and financial risk (continued)

4.2 Management of financial risk (continued)

Capital management

The Company's capital management policies include the following:

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

In accordance with the "Communiqué on Measurement and Assessment of Capital Adequacy for Insurance, Reinsurance and Individual Pension Companies" issued by Turkish Treasury on 19 January 2008 dated and 26761 numbered; the Company measured its minimum capital requirement as TL 287,755,178 as at 31 December 2011. As at 31 December 2011 and 2010, the capital amount of the Company presented in the unconsolidated financial statements are TL 447,269,521 and TL 798,689,610, respectively and capital deficiency of the Company is amounting to TL 112,665,252 according to the communiqué.

The Company has incurred net loss amounting TL 144,736,989 for the year ended 31 December 2011. Due to net loss of the year and fair value decrease of Anadolu Sigorta measured at fair value in the accompanying financial statements amounting TL 121,436,706 after deferred tax effect resulted in capital deficiency. Although it is not considered as actual capital deficiency, the Company's management decided to decrease loss generating treaties effecting financial statements adversely. Furthermore, market value of Anadolu Sigorta is expected to be increase in line with the positive developments in the financial markets in 2012. The Company will be changed its accounting policy on investment properties and owner occupied properties from cost model to fair value model if the aforementioned precautions are not sufficient to obtain minimum capital requirement calculated in accordance with the "Communiqué on Measurement and Assessment of Capital Adequacy for Insurance, Reinsurance and Individual Pension Companies" issued by Turkish Treasury on 19 January 2008 dated and 26761 numbered.

5 Segment reporting

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

The Company operates in life and non-life branches and is not required to present segment reporting since its debt or equity instruments are not traded in a public market.

6 Tangible assets

Movement in tangible assets in the period from 1 January to 31 December 2011 is presented below:

	1 January 2011	Additions	Foreign currency translation effect (*)	Disposals	31 December 2011
Cost:					
Investment properties (Note 7)	41,342,839	-	-	-	41,342,839
Owner occupied properties	31,392,945	-	-	-	31,392,945
Furniture and fixtures	2,504,628	816,144	42,805	(7,217)	3,356,360
Motor vehicles	1,008,696	-	29,084	(69,379)	968,401
	76,249,108	816,144	71,889	(76,596)	77,060,545
Accumulated depreciation:					
Investment properties (Note 7)	16,231,277	826,855	-	-	17,058,132
Owner occupied properties	10,682,202	627,860	-	-	11,310,062
Furniture and fixtures	1,707,057	327,641	39,192	(6,258)	2,067,632
Motor vehicles	317,359	191,259	20,195	(28,908)	499,905
	28,937,895	1,973,615	59,387	(35,166)	30,935,731
Carrying amounts	47,311,213				46,124,814

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

Movement in tangible assets in the period from 1 January to 31 December 2010 is presented below:

	1 January 2010	Additions	Foreign currency translation effect (*)	Disposals	31 December 2010
Cost:					
Investment properties (Note 7)	41,342,839	-	-	-	41,342,839
Owner occupied properties	31,392,945	-	-	-	31,392,945
Furniture and fixtures	2,060,044	460,090	4,697	(20,203)	2,504,628
Motor vehicles	766,102	239,176	3,418	-	1,008,696
	75,561,930	699,266	8,115	(20,203)	76,249,108
Accumulated depreciation:					
Investment properties (Note 7)	15,404,423	826,854	-	-	16,231,277
Owner occupied properties	10,054,341	627,861	-	-	10,682,202
Furniture and fixtures	1,425,425	297,333	4,502	(20,203)	1,707,057
Motor vehicles	153,153	162,173	2,033	-	317,359
	27,037,342	1,914,221	6,535	(20,203)	28,937,895
Carrying amounts	48,524,588				47,311,213

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

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

There is not any revaluation on tangible assets.

As at 31 December 2011 and 2010, carrying amount and fair value of the Company's operating center building located in Nişantaşı amounting to TL 20,082,883 and TL 20,710,743; respectively. As at 31 December 2011, fair value of building is amounting to TL 63,251,705 according to expert report.

7 Investment properties

As at 31 December 2011, inflation adjusted cost and carrying amounts of the Company's investment properties are amounting to TL 41,342,839 (31 December 2010: TL 41,342,839) and TL 24,284,707 (31 December 2010: TL 25,111,562), respectively.

As at 31 December 2011 and 2010, details of investment properties and the fair values are as follows:

	31 December 2011 Carrying amount	31 December 2010 Carrying amount	Date of expertise report	Value of expertise report
Villa Office Block	778,235	815,333	31 December 2011	15,602,314
Suadiye Fitness Center	4,180,076	4,355,487	31 December 2011	11,163,399
Tunaman Garage	1,826,992	1,894,248	31 December 2011	50,358,074
Operating Center Rental Offices	17,499,404	18,046,494	31 December 2011	73,787,990
Carrying amounts	24,284,707	25,111,562		150,911,777

For the year ended 31 December 2011, the Company has rental income from investment properties amounting to TL 8,495,691 (31 December 2010: TL 7,994,312)

8 Intangible assets

Movement in intangible assets in the period from 1 January to 31 December 2011 is presented below:

	1 January 2011	Additions	Foreign currency translation effects (*)	Disposal	31 December 2011
Cost:					
Other intangible assets	1,776,173	60,278	209,706	-	2,046,157
	1,776,173	60,278	209,706	-	2,046,157
Accumulated amortization:					
Other intangible assets	913,338	220,228	195,791	-	1,329,357
	913,338	220,228	195,791	-	1,329,357
Carrying amounts	862,835				716,800

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

Movement in intangible assets in the period from 1 January to 31 December 2010 is presented below:

	1 January 2010	Additions	Foreign currency translation effects (*)	Disposal	31 December 2010
Cost:					
Other intangible assets	1,419,973	331,740	24,460	-	1,776,173
	1,419,973	331,740	24,460	-	1,776,173
Accumulated amortization:					
Other intangible assets	537,712	353,703	21,923	-	913,338
	537,712	353,703	21,923	-	913,338
Carrying amounts	882,261				862,835

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

9 Investments in associates

	31 December 2011		31 December 2010	
	Carrying value	Participation rate %	Carrying value	Participation rate %
Anadolu Sigorta	226,374,583	57.31	386,842,641	57.31
Miltaş Turizm İnşaat Ticaret Anonim Şirketi	746,207	77.00	746,207	77.00
Subsidiaries, net	227,120,790		387,588,848	
Financial asset total	227,120,790		387,588,848	

Name	Total assets	Shareholders' equity	Retained earnings	Profit for the year	Audited	Period
<i>Subsidiaries:</i>						
Miltaş Turizm İnşaat Ticaret AŞ	3,845,885	3,502,622	1,896	1,816	Not audited	31 December 2011
Anadolu Sigorta (*)	1,998,851,243	637,966,176	14,866,927	(2,287,953)	Not audited	30 September 2011

(*) As at 30 September 2011, consolidated financial information of Anadolu Sigorta has been presented.

The Company purchased İş Bankası share of 35.53% in the capital of Anadolu Sigorta with a nominal value of TL 177,650,110 with a share price of TL 248,710,154 as at 30 September 2010. The shares were priced by the weighted average price method at the ISE Wholesale Market. After the sale, the share of the Company increased to 57.31% amounting to TL 286,550,106.

As per the resolution of General Assembly held on 9 March 2010, nominal statutory share capital of Anadolu Sigorta increased from TL 425,000,000 to TL 500,000,000 by TL 75,000,000 through TL 8,281,202 as transfer from statutory reserves, TL 51,846,111 from other reserves and TL 14,872,687 from previous year profit. The registration of the increase in paid-in capital was completed on 23 June 2010. The Company obtained bonus shares amounting to TL 16,334,999 per its share of 21.78%.

10 Reinsurance asset and liabilities

As at 31 December 2011 and 2010, outstanding reinsurance assets and liabilities of the Company, as Reinsurance company in accordance with existing reinsurance contracts are as follows:

Reinsurance assets	31 December 2011	31 December 2010
Cash deposited to reinsurance companies	72,191,362	51,116,491
Provision for outstanding claims, ceded (Note 4.2), (Note 17)	39,326,332	33,260,864
Receivables from reinsurance companies (Note 12)	9,738,351	14,597,773
Reserve for unearned premiums, ceded (Note 17)	10,425,185	3,434,329
Total	131,681,230	102,409,457

There is no impairment losses recognized for reinsurance assets.

Reinsurance liabilities	31 December 2011	31 December 2010
Deferred commission income (Note 19)	819,526	718,698
Total	819,526	718,698

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

	31 December 2011	31 December 2010
Premiums ceded during the period (Note 17)	(85,584,077)	(82,157,520)
Reserve for unearned premiums, ceded at the beginning of the period (Note 17)	(3,434,329)	(3,016,194)
Reserve for unearned premiums, ceded at the end of the period (Note 17)	10,425,185	3,434,329
Premiums earned, ceded (Note 17)	(78,593,221)	(81,739,385)
Claims paid, ceded during the period (Note 17)	16,768,837	62,020,923
Provision for outstanding claims, ceded at the beginning of the period (Note 17)	(33,260,864)	(80,867,401)
Provision for outstanding claims, ceded at the end of the period (Note 17)	39,326,332	33,260,864
Claims incurred, ceded (Note 17)	22,834,305	14,414,386
Commission income accrued from reinsurers during the period (Note 32)	2,158,623	1,741,160
Deferred commission income at the beginning of the period (Note 19)	718,698	718,390
Deferred commission income at the end of the period (Note 19)	(819,526)	(718,698)
Commission income earned from reinsurers (Note 32)	2,057,795	1,740,852
Changes in provision for outstanding claims, reinsurers' share (Note 17)	1,731,027	92,845
Total, net	(51,970,094)	(65,491,302)

11 Financial assets

As at 31 December 2011 and 2010, the Company's financial assets are detailed as follows:

	31 December 2011	31 December 2010
Financial assets held for trading	85,950,860	183,907,792
Available for sale financial assets	220,587,319	311,451,890
Total	306,538,179	495,359,682

As at 31 December 2011 and 2010, the Company's financial assets held for trading are detailed as follows:

	31 December 2011			
	Face value	Cost	Fair value	Carrying value
<i>Debt instruments:</i>				
Government bonds – TL	6,300,000	6,405,400	6,241,725	6,241,725
Private sector bonds - TL	14,194,588	14,266,125	14,342,393	14,342,393
Eurobonds issued by Private sector	12,550,000	19,280,853	22,762,704	22,762,704
		39,952,378	43,346,822	43,346,822
<i>Non-fixed income financial assets:</i>				
Equity shares		26,792,767	21,525,159	21,525,159
Investment funds		21,342,882	21,078,879	21,078,879
		48,135,649	42,604,038	42,604,038
Total financial assets held for trading		88,088,027	85,950,860	85,950,860
	31 December 2010			
	Face value	Cost	Fair value	Carrying value
<i>Debt instruments:</i>				
Government bonds – TL	110,707,726	103,355,705	106,338,219	106,338,219
Government bonds – FC	5,000,000	5,926,077	7,889,161	7,889,161
Private sector bonds - TL	6,594,588	6,646,173	6,907,133	6,907,133
Eurobonds issued by Turkish Government	12,050,000	19,572,107	21,874,336	21,874,336
		135,500,062	143,008,849	143,008,849
<i>Non-fixed income financial assets:</i>				
Equity shares		31,334,638	30,725,798	30,725,798
Investment funds and TurkDEX-ISE 30 Index future contracts		8,305,389	10,173,145	10,173,145
		39,640,027	40,898,943	40,898,943
Total financial assets held for trading		175,140,089	183,907,792	183,907,792

11 Financial assets (continued)

As at 31 December 2011 and 2010, the Company's available for sale financial assets are as follows:

	31 December 2011			
	Face value	Cost	Fair value	Carrying value
<i>Debt instruments:</i>				
Government bonds – TL	131,687,927	137,649,601	140,463,816	140,463,816
Private sector bonds - TL	34,240,000	32,743,511	33,290,198	33,290,198
		170,393,112	173,754,014	173,754,014
<i>Non-fixed income financial assets:</i>				
Equity shares		35,403,075	46,833,305	46,833,305
		35,403,075	46,833,305	46,833,305
Total available-for-sale financial assets		205,796,187	220,587,319	220,587,319
	31 December 2010			
	Face value	Cost	Fair value	Carrying value
<i>Debt instruments:</i>				
Government bonds – TL	205,092,254	215,289,270	254,055,827	254,055,827
		215,289,270	254,055,827	254,055,827
<i>Non-fixed income financial assets:</i>				
Equity shares		30,711,786	57,396,063	57,396,063
		30,711,786	57,396,063	57,396,063
Total available-for-sale financial assets		246,001,056	311,451,890	311,451,890

All debt instruments presented above are traded in the capital markets. As at 31 December 2011, equity shares classified as available for sale financial assets with a carrying amount of TL 4,467,217 are not publicly traded (31 December 2010: TL 4,466,166).

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

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

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

Year	Change in value increase / (decrease)	Total increase / (decrease) in value
2011	(166,766,456)	(112,261,856)
2010	16,882,376	54,504,600
2009	58,983,271	37,622,224

11 Financial assets (continued)

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

	31 December 2011			Carrying value
	Face value	Cost	Fair value	
Available for sale financial assets - Private sector bonds	21,600,000	20,103,951	20,532,854	20,532,854
Financial assets held for trading – Eurobond	5,000,000	7,775,839	9,393,568	9,393,568
Financial assets held for trading – Investment funds		21,342,882	21,078,879	21,078,879
Available for sale financial assets – Equity shares		28,970,994	40,564,575	40,564,575
Total		78,193,666	91,569,876	91,569,876

	31 December 2010		Carrying value
	Cost	Fair value	
Financial assets held for trading – Investment funds	8,305,389	10,187,665	10,187,665
Available for sale financial assets – Equity shares	26,565,931	53,250,208	53,250,208
Financial assets held for trading – Equity shares	507,718	522,000	522,000
Total	35,379,038	63,959,873	63,959,873

As at 31 December 2011 and 2010, the movement of the financial assets is presented below:

	31 December 2011		
	Trading	Available-for-Sale	Total
Balance at the beginning of the period	183,907,792	311,451,890	495,359,682
Unrealized exchange differences on financial assets	5,554,663	-	5,554,663
Acquisitions during the period	172,434,374	302,038,312	474,472,686
Disposals (sale and redemption)	(260,516,937)	(378,423,391)	(638,940,328)
Change in the fair value of financial assets	(15,626,648)	(23,575,405)	(39,202,053)
Change in amortized cost of the financial assets	-	6,691,902	6,691,902
Bonus shares acquired	197,616	2,404,011	2,601,627
Balance at the beginning of the period	85,950,860	220,587,319	306,538,179

	31 December 2010		
	Trading	Available-for-Sale	Total
Balance at the beginning of the period	269,256,150	241,336,226	510,592,376
Unrealized exchange differences on financial assets	3,138,465	-	3,138,465
Acquisitions during the period	395,747,032	95,968,127	491,715,159
Disposals (sale and redemption)	(466,347,340)	(56,553,751)	(522,901,091)
Change in the fair value of financial assets	(17,993,133)	13,104,789	(4,888,344)
Change in amortized cost of the financial assets	-	16,386,248	16,386,248
Bonus shares acquired	106,618	1,210,251	1,316,869
Balance at the beginning of the period	183,907,792	311,451,890	495,359,682

12 Loans and receivables

	31 December 2011	31 December 2010
Receivables from main operations (Note 4.2)	243,546,328	201,650,432
Prepaid taxes and funds (Note 19)	7,788,397	5,340,746
Other receivables (Note 4.2)	209,412	1,624,792
Other current asset	1,952	2,242
Total	251,546,089	208,618,212
Short-term receivables	251,546,089	208,618,212
Medium and long-term receivables	-	-
Total	251,546,089	208,618,212

As at 31 December 2011 and 2010, receivables from main operations are detailed as follows:

	31 December 2011	31 December 2010
Receivables from insurance companies	66,883,310	31,357,024
Receivables from agencies, brokers and intermediaries	57,328,645	50,862,064
Receivables from reinsurance companies (Note 10)	9,738,351	14,597,773
Total receivables from insurance operations, net	133,950,306	96,816,861
Cash deposited to insurance and reinsurance companies	109,596,022	104,833,571
Doubtful receivables from main operations	9,836,912	8,374,541
Provision for doubtful receivables from main operations	(9,836,912)	(8,374,541)
Receivables from main operations	243,546,328	201,650,432

As at 31 December 2011 and 2010, mortgages and collaterals obtained for receivables are disclosed as follows:

	31 December 2011	31 December 2010
Letters of guarantees	2,805,059	2,230,138
Mortgage notes	2,041	2,041
Other guarantees	2,000	2,000
Total	2,809,100	2,234,179

Provisions for overdue receivables and receivables not due yet

a) Receivables under legal or administrative follow up (due): TL 9,836,912 for main operations (31 December 2010: TL 8,374,541) and TL 28,088 (31 December 2010: TL 16,621) for other receivables.

b) Provision for premium receivables (due): None (31 December 2010: None)

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

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

13 Derivative financial assets

As at 31 December 2011, the Company does not have derivative financial instruments. As at 31 December 2010, the detailed information about the Company's current derivative financial instruments is presented in 11 – *Financial assets* and consist of TurkDEX-ISE 30 Index future contracts with the maturity of February 2011.

14 Cash and cash equivalents

As at 31 December 2011 and 2010, cash and cash equivalents are as follows:

	31 December 2011		31 December 2010	
	At the end of the period	At the beginning of the period	At the end of the period	At the beginning of the period
Cash on hand	14,067	30,839	30,839	15,606
Bank deposits	582,272,771	382,285,859	382,285,859	583,868,745
Cheques received	-	-	-	12,488
Cash and cash equivalents in the balance sheet	582,286,838	382,316,698	382,316,698	583,896,839
Bank deposits – blocked	(500)	(23,000)	(23,000)	(23,000)
Time deposits with maturities longer than 3 months	(57,151,184)	-	-	-
Interest accruals on bank deposits	(2,160,164)	(2,033,953)	(2,033,953)	(5,078,778)
Cash and cash equivalents presented in the statement of cash flows	522,974,990	380,259,745	380,259,745	578,795,061

As at 31 December 2011 and 2010, bank deposits are further analyzed as follows:

	31 December 2011	31 December 2010
Foreign currency denominated bank deposits		
- time deposits	82,278,894	76,839,562
- demand deposits	6,072,000	3,646,781
Bank deposits in Turkish Lira		
- time deposits	493,915,905	301,795,438
- demand deposits	5,972	4,078
Cash at banks	582,272,771	382,285,859

15 Equity

Paid in Capital

The shareholder having direct or indirect control over the shares of the Company is İş Bankası Group having 76.64% of outstanding shares. As at 31 December 2011 and 2010, the shareholding structure of the Company is presented below:

Name	31 December 2011		31 December 2010	
	Shareholding amount (TL)	Shareholding rate (%)	Shareholding amount (TL)	Shareholding rate (%)
Türkiye İş Bankası AŞ	471,323,817	76.64	402,349,600	76.64
Millî Reasürans TAŞ Mensupları Yardımlaşma Sandığı Vakfı	64,833,521	10.54	55,345,689	10.54
Groupama Emeklilik AŞ	36,163,765	5.88	30,871,507	5.88
T.C. Başbakanlık Hazine Müsteşarlığı	20,724,061	3.37	13,070,069	2.49
T.C. Ziraat Bankası AŞ	15,310,652	2.49	13,070,069	2.49
Other	6,644,184	1.08	10,293,066	1.96
Paid in Capital	615,000,000	100.00	525,000,000	100.00

As at 31 December 2011, the issued share capital of the Company is TL 615,000,000 (31 December 2010: TL 525,000,000) and the share capital of the Company consists of 61,500,000,000 (31 December 2010: 52,500,000,000 shares) issued shares with TL 0.01 nominal value each. There are no privileges over the shares of the Company.

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

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

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

Legal reserves

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

The movements of legal reserves are as follows:

	31 December 2011	31 December 2010
Legal reserves at the beginning of the period	42,856,487	30,583,364
Transfer from 2010/2009 profit	6,766,207	12,273,123
Legal reserves at the end of the period	49,622,694	42,856,487

15 Equity (continued)

As at 31 December 2011 and 2010; “Other Reserves and Retained Earnings” includes only extraordinary reserves.

Extraordinary Reserves

The movement of extraordinary reserves is as follows:

	31 December 2011	31 December 2010
Extraordinary reserves at the beginning of the period	4,124,316	3,372,423
Transfer to share capital	-	(270,217)
Transfer from profit	1,388,583	94,938
Other	-	927,172
Extraordinary reserves at the end of the period	5,512,899	4,124,316

Other profit reserves

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

Accordingly, the Company initially transferred total provisions amounting to TL 137,655,806, including earthquake provisions reserved as at 31 December 2006 and related gains obtained from investment of this amount, to the reserve accounts under equity. Full amount is used for capital increase in 2010 (*Note 2.13*).

Other capital reserves

In accordance with tax legislation, 75% of profits from sales of participation shares and real states included in the assets of companies is exempt from corporate tax provided that it is classified under a special fund for full five years. The exempt gains cannot be transferred to another account other than a capital increase or cannot be withdrawn from the entity for five years. Tax exempt gain from real estate sale amounting to TL 2,073,977 as at 31 December 2009 is used in capital increase in 2010 (*Note 2.13*).

Statutory reserves

After the allocation of first legal reserves and first dividend to shareholders, reserve for natural disasters and catastrophe might be allocated, if deemed necessary, based on the suggestion of the Board of Directors and decision of the General Assembly. As at 31 December 2011, total amount of statutory reserves allocated as mentioned method is TL 39,500,000 and the Company allocated TL 15,000,000 from profit of 2010 (TL 23,500,000 from profit of 2009) to natural disasters and catastrophe reserve (*Note 38*) and TL 90,000,000 is used in capital increase.

15 Equity (continued)

Foreign currency translation differences

Foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations. As at 31 December 2011, foreign currency translation reserve amounting to TL 5,367,227 (31 December 2010: TL 357,479 loss) stems from Singapore Branch whose functional currency is US Dollars.

Valuation of financial assets

As at 31 December 2011 and 2010, movement of fair value reserves of available for sale financial assets and associates are presented below:

	31 December 2011	31 December 2010
Fair value reserves at the beginning of the period	54,504,600	37,622,224
Change in the fair value during the period (Note 4.2)	(184,703,909)	23,186,347
Deferred tax effect	35,570,606	(1,108,084)
Net gains transferred to the statement of income (Note 4.2)	(22,041,441)	(6,494,858)
Deferred tax effect	4,408,288	1,298,971
Fair value reserves at the end of the period	(112,261,856)	54,504,600

16 Other reserves and equity component of DPF

As at 31 December 2011 and 2010, other reserves are explained in detail in Note 15 – Equity above.

As at 31 December 2011 and 2010, the Company does not hold any insurance or investment contracts which contain a DPF.

17 Insurance contract liabilities and reinsurance assets

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

As at 31 December 2011 and 2010, technical reserves of the Company are as follows:

	31 December 2011	31 December 2010
Reserve for unearned premiums, gross	413,348,322	340,208,492
Reserve for unearned premiums, ceded (Note 10)	(10,425,185)	(3,434,329)
Reserves for unearned premiums, net	402,923,137	336,774,163
Provision for outstanding claims, gross	631,050,815	425,912,065
Provision for outstanding claims, ceded (Note 10)	(39,326,332)	(33,260,864)
Provision for outstanding claims, net	591,724,483	392,651,201
Reserve for unexpired risks, gross	70,733,676	10,626,743
Reserve for unexpired risks, ceded (Note 10)	(1,823,872)	(92,845)
Reserve for unexpired risks, net	68,909,804	10,533,898
Equalization provision, net	14,370,512	15,842,048
Life mathematical provisions	1,377,701	1,192,786
Total technical provisions, net	1,079,305,637	756,994,096
Short-term	1,064,935,125	741,152,048
Medium and long-term	14,370,512	15,842,048
Total technical provisions, net	1,079,305,637	756,994,096

As at 31 December 2011 and 2010, movements of the insurance liabilities and related reinsurance assets are presented below:

Reserve for unearned premiums	31 December 2011		
	Gross	Ceded	Net
Reserve for unearned premiums at the beginning of the period	340,208,492	(3,434,329)	336,774,163
Premiums written during the period	991,993,078	(85,584,077)	906,409,001
Premiums earned during the period	(918,853,248)	78,593,221	(840,260,027)
Reserve for unearned premiums at the end of the period	413,348,322	(10,425,185)	402,923,137
Reserve for unearned premiums	31 December 2010		
	Gross	Ceded	Net
Reserve for unearned premiums at the beginning of the period	353,362,029	(3,016,194)	350,345,835
Premiums written during the period	855,302,911	(82,157,520)	773,145,391
Premiums earned during the period	(868,456,448)	81,739,385	(786,717,063)
Reserve for unearned premiums at the end of the period	340,208,492	(3,434,329)	336,774,163

17 Insurance liabilities and reinsurance assets (continued)

Provision for outstanding claims	31 December 2011		
	Gross	Ceded	Net
Provision for outstanding claims at the beginning of the period	425,912,065	(33,260,864)	392,651,201
Claims reported during the period and changes in the estimations of provisions for outstanding claims provided at the beginning of the period	885,353,738	(22,834,305)	862,519,433
Claims paid during the period	(680,214,988)	16,768,837	(663,446,151)
Provision for outstanding claims at the end of the period	631,050,815	(39,326,332)	591,724,483

Provision for outstanding claims	31 December 2010		
	Gross	Ceded	Net
Provision for outstanding claims at the beginning of the period	407,973,738	(80,867,401)	327,106,337
Claims reported during the period and changes in the estimations of provisions for outstanding claims provided at the beginning of the period	638,423,732	(14,414,386)	624,009,346
Claims paid during the period	(620,485,405)	62,020,923	(558,464,482)
Provision for outstanding claims at the end of the period	425,912,065	(33,260,864)	392,651,201

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

The Company, being a reinsurance company, has no obligation of providing guarantees.

Total amount of insurance risk on a branch basis

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

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

None.

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

None.

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

None.

Pension investment funds established by the Company and their unit prices

None.

Number and amount of participation certificates in portfolio and circulation

None.

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

None.

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

None.

17 Insurance liabilities and reinsurance assets (continued)

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

None.

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

None.

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

None.

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

None.

Profit share distribution rate of life insurances

None.

Deferred commission expenses

The Company capitalizes commissions paid to the intermediaries related to policy production under short-term and long-term prepaid expenses. As at 31 December 2011, short-term prepaid expenses amounting to TL 94,877,317 (31 December 2010: TL 79,695,531) consist of deferred commission expenses amounting to TL 94,680,589 (31 December 2010: TL 79,695,531) and other prepaid expenses amounting to TL 196,728 (31 December 2010: none).

As at 31 December 2011 and 2010, the movement of deferred commission expenses is presented below:

	31 December 2011	31 December 2010
Deferred commission expenses at the beginning of the period	79,695,531	88,842,304
Commissions accrued during the period (Note 32)	212,783,495	165,496,797
Commissions expensed during the period (Note 32)	(197,798,437)	(174,643,570)
Deferred commission expenses at the end of the period	94,680,589	79,695,531

18 Investment contract liabilities

None.

19 Trade and other payables and deferred income

	31 December 2011	31 December 2010
Payables arising from reinsurance operations	33,104,089	35,594,545
Short/long term deferred income and expense accruals	3,667,622	1,151,003
Taxes and other liabilities and similar obligations	1,056,498	562,759
Other payables	605,002	289,641
Due to related parties (Note 45)	124,614	116,511
Total	38,557,825	37,714,459
Short-term liabilities	38,491,158	37,636,435
Long-term liabilities	66,667	78,024
Total	38,557,825	37,714,459

As at 31 December 2011 and 2010, other payables consist of outsourced benefits and services.

Short/long term deferred income and expense accruals include deferred commission income (Note 10) amounting to TL 819,526 (31 December 2010: TL 718,698).

Corporate tax liabilities and prepaid taxes are disclosed below:

	31 December 2011	31 December 2010
Taxes paid during the year	(8,009,296)	(16,848,232)
Corporate tax liabilities	220,899	11,507,486
Prepaid assets, net (Note 12)	(7,788,397)	(5,340,746)

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

None

20 Financial liabilities

None (31 December 2010: None).

21 Deferred Taxes

As at 31 December 2011 and 2010, deferred tax assets and liabilities are attributable to the following:

	31 December 2011	31 December 2010
	Deferred tax assets / (liabilities)	Deferred tax assets / (liabilities)
Valuation differences in subsidiaries	29,779,497	(435,447)
Deferred tax effect of current period tax losses (Note 2.18)	20,405,251	-
Reserve for unexpired risks	13,781,961	2,106,780
Additional provisions for outstanding claims through actuarial chain ladder method	7,961,132	2,098,044
Provision for the pension fund deficits	5,034,049	4,154,651
Valuation differences in financial assets	1,581,385	155,285
Provisions for employee termination benefits and unused vacations	917,726	867,486
Provision for doubtful receivables	245,487	-
Equalization provision	88,672	2,529,295
Discount of receivables and payables	33,857	-
Difference in depreciation methods on tangible and intangible assets between tax regulations and the Reporting Standards	(204,723)	(186,498)
Income accruals	(1,432,800)	(1,951,812)
Deferred tax assets, net	78,191,494	9,337,784

As at 31 December 2011, the Company has deductible tax losses amounting TL 102,026,257, which will be expired at 31 December 2016. The Company has recognised deferred tax assets on these tax losses because it is probable that future taxable profit will be available in accordance with the Company's projections.

Movement of deferred tax assets as at 31 December 2011 and 2010 are given below:

Movement of deferred tax (assets) / liabilities:	31 December 2011	31 December 2010
Opening balance at 1 January	9,337,784	8,467,791
Recognised in profit or loss	33,283,104	38,522
Recognised in equity	35,570,606	831,471
Closing balance at 31 December	78,191,494	9,337,784

22 Retirement benefit obligations

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

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

Following annulment of the temporary Article 23 of the Banking Law, the new law “Amendments to the Social Security and General Health Insurance Act Including Certain Laws and Decrees” was published in the Official Gazette dated 8 May 2008 and came into force. The new law requires transfer of the participants or beneficiaries of pension funds to Social Security Institution as at the effective date of the Act within 3 years and prescribe the extension period of the transfer as maximum of two years upon the order of the Cabinet. Accordingly, the three-year period expired on 8 May 2011 was extended to the 8 May 2013. In accordance with the Act, as of the transfer date, present value of the liabilities will be determined by considering the income and expense of the pension fund.

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

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

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

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

The technical financial position of the Milli Reasürans Pension Fund is audited by the registered actuary in accordance with the Article 21 of the Insurance Law and Actuary Act. As per the calculations based on the above mentioned assumptions, actuarial and technical deficit amounting to TL 25,170,247 (31 December 2010: TL 20,773,255) is accounted as “Provision for pension fund deficits” in the accompanying unconsolidated financial statements.

22 Retirement benefit obligations (continued)

An actuarial report has been obtained from registered actuary regarding calculation of the amount to be paid to the Social Security Institution by the Company in accordance with the new law. The CSO 1980 mortality table and 9.8% of technical deficit interest rate are taken into account in the calculation of the said technical deficit. No real increase / decrease is anticipated in salary and health expenses. The health benefits to be paid will be considered by the Group management due to the changes in the Social Security Institution legislation and other regulations. At 31 December 2011 and 2010, technical deficit from pension funds comprised the following:

	31 December 2011	31 December 2010
Net present value of total liabilities other than health	(62,146,602)	(56,974,382)
Net present value of insurance premiums	12,066,671	10,404,495
Net present value of total liabilities other than health	(50,079,931)	(46,569,887)
Net present value of health liabilities	(9,684,833)	(8,596,684)
Net present value of health premiums	6,622,616	5,710,659
Net present value of health liabilities	(3,062,217)	(2,886,025)
Pension fund assets	27,971,901	28,682,657
Amount of actuarial and technical deficit	(25,170,247)	(20,773,255)

Plan assets are comprised of the following items:

	31 December 2011	31 December 2010
Properties	17,000,000	17,006,000
Cash and cash equivalents	6,412,671	7,202,421
Associates	4,192,939	3,665,984
Securities portfolio	4,786	477,872
Other	361,505	330,380
Total plan assets	27,971,901	28,682,657

23 Provision for other liabilities and charges

As at 31 December 2011 and 2010; the provisions for other risks are disclosed as follows:

	31 December 2011	31 December 2010
Provision for employee bonus	-	2,061,681
Provision for dividends paid to employees	-	698,317
Provision for costs	-	2,759,998
Provision for pension fund deficits (Note 22)	25,170,247	20,773,255
Provision for employee termination benefits	4,588,628	4,337,432
Total provision for other risks	29,758,875	27,870,685

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

	31 December 2011	31 December 2010
Provision at the beginning of the period	4,337,432	3,990,182
Interest cost (Note 47)	123,073	683,943
Service cost (Note 47)	271,395	234,885
Payments during the period (Note 47)	(776,045)	(545,182)
Actuarial differences (Note 47)	632,773	(26,396)
Provision at the end of the period	4,588,628	4,337,432

24 Net insurance premium

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

25 Fee revenue

None

26 Investment income

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

27 Net income accrual on financial assets

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

28 Asset held at fair value through profit or loss

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

29 Insurance rights and claims

	31 December 2011		31 December 2010	
	Life	Non-Life	Life	Non-Life
Claims paid, net off reinsurers' share	(6,823,372)	(656,622,779)	(5,506,322)	(552,958,160)
Changes in provision for outstanding claims, net off reinsurers' share	146,367	(199,219,649)	(2,305,074)	(63,239,790)
Changes in reserve for unearned premium, net off reinsurers' share	(452,266)	(65,696,708)	(2,674,030)	16,245,702
Changes in reserve for unexpired risks, net off reinsurers' share	-	(58,375,906)	-	(2,270,403)
Change in equalization provision	(197,964)	1,669,500	(233,007)	(3,225,803)
Change in life mathematical provisions, net off reinsurers' share	(184,915)	-	(351,797)	-
Total	(7,512,150)	(978,245,542)	(11,070,230)	(605,448,454)

30 Investment contract benefits

None

31 Other expenses

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

32 Operating expenses

As at and for the years ended 31 December 2011 and 2010, the operating expenses are disclosed as follows:

	31 December 2011	31 December 2010
Commission expenses (Note 17)	197,798,437	174,643,570
<i>Commissions to the intermediaries accrued during the period (Note 17)</i>	212,783,495	165,496,797
<i>Changes in deferred commission expenses (Note 17)</i>	(14,985,058)	9,146,773
Employee benefit expenses (Note 33)	27,821,629	27,508,792
Foreign exchange losses	13,548,848	12,504,024
Administration expenses	7,022,172	6,422,184
Commission income from reinsurers (Note 10)	(2,057,795)	(1,740,852)
<i>Commission income from reinsurers accrued during the period (Note 10)</i>	(2,158,623)	(1,741,160)
<i>Change in deferred commission income (Note 10)</i>	100,828	308
Outsourced benefits and services	348,399	304,846
Other	6,296,625	3,980,246
Total	250,778,315	223,622,810

33 Employee benefit expenses

As at and for the years ended 31 December 2011 and 2010, employee benefit expenses are disclosed as follows:

	31 December 2011	31 December 2010
Wages and salaries	20,686,683	20,974,260
Employer's share in social security premiums	3,887,223	3,760,452
Pension fund benefits	3,247,723	2,774,080
Total (Note 32)	27,821,629	27,508,792

34 Financial costs

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

35 Income tax expense

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

	31 December 2011	31 December 2010
<i>Corporate tax expense:</i>		
Corporate tax provision	(220,899)	(11,507,486)
<i>Deferred taxes:</i>		
Origination and reversal of temporary differences	33,283,104	38,522
Total income tax expense / (income)	33,062,205	(11,468,964)

A reconciliation of tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the Company’s effective income tax rate for the year ended 31 December 2011 and 2010 is as follows:

	31 December 2011		31 December 2010	
		Tax rate		Tax rate
Profit before taxes	(177,799,194)	(%)	75,559,735	(%)
Taxes on income per statutory tax rate	(35,559,839)	20.00	15,111,947	20.00
Tax exempt income	2,147,478	(1.21)	(5,038,489)	(6.67)
Non-deductible expenses	350,156	(0.20)	1,395,506	1.85
Total tax expense recognized in profit or loss	(33,062,205)	18.60	11,468,964	15.18

36 Net foreign exchange gains

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

37 Earnings per share

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

	31 December 2011	31 December 2010
Net profit / (loss) for the period	(144,736,989)	64,090,771
Weighted average number of shares (*)	61,500,000,000	61,500,000,000
Earnings / (loss) per share (TL)	(0.00235)	0.00104

(*) Capital increase is made through internal resources and prior period’s earnings per share figure is revised by using the number of shares subsequent to the capital increase.

38 Dividends per share

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

Net profit for the year presents remaining amount of total income of the year after deducting operating expenses, amortisation, provisions, taxes and other similar obligations and prior year losses if any.

- 10% of legal reserve,
- 10% of first dividend to shareholders,
- Reserve for natural disasters and catastrophe might be allocated, if deemed necessary, based on the suggestion of the Board of Directors and decision of the General Assembly,
- After the allocation of first legal reserves, first dividend to shareholders and statutory reserves, 3.5% of the remaining amount is distributed to the Founder Shares and up to 3% of the remaining amount not exceeding three-wages is distributed to personnel, based on the suggestion of the Board of Directors and decision of the General Assembly.
- After the allocation of above mentioned reserves and dividends, second dividend to shareholders might be allocated, based on the suggestion of the Board of Directors and decision of the General Assembly.

As a result of the Ordinary General Meeting of the Company held on 28 March 2011, net profit of the 2010 is decided to be distributed accordingly:

Profit Distribution Table of 2010	
Net profit for the year	64,090,771
Prior year losses	(6,029,085)
Legal reserves	(5,806,169)
First dividend to shareholders	(5,806,169)
Statutory reserves ("Reserve for natural disasters and catastrophe")	(15,000,000)
Dividend to founder shares	(1,100,727)
Dividend to employees	(943,480)
Second dividend to shareholders	(28,000,000)
Other reserves allocated in accordance with Article 466 of Turkish Commercial Code	(960,038)
Extraordinary reserves	(445,103)
Dividend to be distributed from net profit of 2010	(33,806,169)
Number of shares as at 31 December 2010	52,500,000,000
Dividends per share (full TL)	0.00064
Dividend to be distributed from net profit of 2009	(49,960,000)
Number of shares as at 31 December 2009	38,500,000,000
Dividends per share (full TL)	0.00130

39 Cash generated from operations

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

40 Convertible bonds

None.

41 Redeemable preference shares

None.

42 Risks

As at 31 December 2011, total amount of ongoing suits filed against to the Company is TL 151,000 (31 December 2010: TL 151,000).

43 Commitments

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

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

TL commitments	31 December 2011	31 December 2010
Within one year	158,832	175,094
Between two to five years	-	160,503
More than 5 years	-	-
Total of minimum rent payments	158,832	335,597

44 Business combinations

None

45 Related party transactions

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

The related party balances as of 31 December 2011 and 2010 are as follows:

	31 December 2011	31 December 2010
Türkiye İş Bankası A.Ş	383,560,710	67,448,704
T.C. Ziraat Bankası A.Ş	3,883,402	235,648,179
Other	158	933
Banks	387,444,270	303,097,816
Equity shares of the related parties	40,564,575	53,772,208
Bonds issued by İş Bankası A.Ş. (Note 11)	18,695,054	-
Eurobonds issued by İş Bankası A.Ş. (Note 11)	9,393,568	-
Investment funds founded by İş Portföy Yönetimi A.Ş. (Note 11)	7,919,200	-
Investment funds founded by İşbank GmbH (Note 11)	7,273,031	9,625,876
Investment funds founded by İş Yatırım Menkul Değerler A.Ş. (Note 11)	5,386,761	-
Bonds issued by İş Finansal Kiralama A.Ş. (Note 11)	1,837,800	-
Investment funds founded by İş Bankası A.Ş. (Note 11)	499,887	561,789
Financial assets	91,569,876	63,959,873
Axa Sigorta A.Ş	8,536,885	4,515,213
Anadolu Sigorta	6,556,265	1,016,961
Allianz Sigorta A.Ş	592,698	354,821
Anadolu Hayat Emeklilik A.Ş	161,582	109,042
İstanbul Umum Sigorta A.Ş	71,363	62,101
Ergo Sigorta A.Ş	18,166	2,667,904
AvivaSa Emeklilik A.Ş	4,507	-
Receivables from main operations	15,941,466	8,726,042
Due to shareholders	96,618	58,777
Due to other related parties	27,996	57,734
Due to related parties	124,614	116,511
Güven Sigorta T.A.Ş	414,322	1,230,022
Groupama Sigorta A.Ş	153,603	617,450
Ergo Sigorta A.Ş	100,062	-
Axa Sigorta A.Ş	53,154	54,410
İstanbul Umum Sigorta A.Ş	41,368	43,874
Allianz Sigorta A.Ş	41,041	42,118
Anadolu Hayat Emeklilik A.Ş	228	-
AvivaSa Emeklilik A.Ş	-	121,275
Payables from main operations	803,778	2,109,149

45 Related party transactions (continued)

No guarantees have been taken against receivables from related parties.

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

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

The transactions with related parties during the years ended 31 December 2011 and 2010 are as follows:

	31 December 2011	31 December 2010
Anadolu Sigorta	94,536,854	79,355,427
Ergo Sigorta A.Ş	41,191,693	45,056,043
Axa Sigorta A.Ş	26,000,637	15,582,588
Allianz Sigorta A.Ş	23,152,192	26,491,982
Groupama Sigorta A.Ş	7,254,713	6,328,165
Anadolu Hayat Emeklilik A.Ş	778,715	621,888
AvivaSa Emeklilik A.Ş	512,540	467,232
Güven Sigorta T.A.Ş	139,156	112,663
Premiums received	193,566,500	174,015,988
Anadolu Sigorta	325,022	100,587
Ergo Sigorta A.Ş	58,915	61,885
Groupama Sigorta A.Ş	24,913	27,165
Axa Sigorta A.Ş	12,566	15,014
Güven Sigorta T.A.Ş	4,034	5,050
Allianz Sigorta A.Ş	33	(4)
İstanbul Umum Sigorta A.Ş	12	5
Premiums ceded	425,495	209,702
Allianz Sigorta A.Ş	2	(1)
İstanbul Umum Sigorta A.Ş	1	-
Anadolu Sigorta	-	59,170
Groupama Sigorta A.Ş	-	24,779
Ergo Sigorta A.Ş	-	18,758
Axa Sigorta A.Ş	-	10,858
Güven Sigorta T.A.Ş	-	4,570
Commissions received	3	118,134
Anadolu Sigorta	17,824,177	16,098,066
Ergo Sigorta A.Ş	9,107,794	7,914,157
Allianz Sigorta A.Ş	5,876,593	6,340,757
Axa Sigorta A.Ş	2,482,614	4,978,843
Groupama Sigorta A.Ş	1,131,358	1,700,148
AvivaSa Emeklilik A.Ş	305,743	39,543
Anadolu Hayat Emeklilik A.Ş	175,706	135,917
Güven Sigorta T.A.Ş	78,070	17,941
Commissions given	36,982,055	37,225,372

45 Related party transactions (continued)

	31 December 2011	31 December 2010
Anadolu Sigorta	55,652,261	49,481,003
Ergo Sigorta A.Ş	31,597,360	37,179,390
Allianz Sigorta A.Ş	16,810,769	30,188,363
Groupama Sigorta A.Ş	7,901,921	6,599,074
Axa Sigorta A.Ş	4,747,237	5,668,168
Güven Sigorta T.A.Ş.	1,560,650	3,439,890
AvivaSa Emeklilik A.Ş	196,477	556,196
Anadolu Hayat Emeklilik A.Ş	59,096	1,711,429
Claims paid	118,525,771	134,823,513
Anadolu Sigorta	462,474	735,454
Groupama Sigorta A.Ş	226,304	317,883
Ergo Sigorta A.Ş	182,117	320,626
Axa Sigorta A.Ş	145,983	200,940
Güven Sigorta T.A.Ş	75,643	90,435
İstanbul Umum Sigorta A.Ş	20,022	11,577
Allianz Sigorta A.Ş	14,157	9,648
Reinsurance's share of claims paid	1,126,700	1,686,563
Axa Sigorta A.Ş	916,441	57,287
Anadolu Sigorta	790,026	141,065
Allianz Sigorta A.Ş	558,914	151,837
Ergo Sigorta A.Ş	453,179	479,476
Groupama Sigorta A.Ş	202,070	10,347
Güven Sigorta T.A.Ş	1,420	8,305
AvivaSa Emeklilik A.Ş	1,417	623
Anadolu Hayat Emeklilik A.Ş	1,345	(90)
İstanbul Umum Sigorta A.Ş	-	2,769
Other income	2,924,812	851,619
Allianz Sigorta A.Ş	173,064	174,173
Anadolu Sigorta	162,694	237,419
Axa Sigorta A.Ş	86,106	44,708
Groupama Sigorta A.Ş	55,543	133,696
Güven Sigorta A.Ş	42,848	3,125
Ergo Sigorta A.Ş	39,732	224,382
Anadolu Hayat Emeklilik A.Ş	200	698
AvivaSa Emeklilik A.Ş	39	768
İstanbul Umum Sigorta A.Ş	-	570
Other expenses	560,226	819,539

46 Subsequent events

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

47 Other

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

They are presented in the related notes above.

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

None

Subrogation recorded in “Off-Balance Sheet Accounts”

None

Real rights on immovable and their values

None

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

None

As at and for the year ended 31 December 2011 and 2010, details of discount and provision expenses are as follows:

	31 December 2011	31 December 2010
Provision for pension fund deficits	(4,396,992)	(1,356,665)
Provision expenses for doubtful receivables (*)	(1,473,838)	(189,982)
Provision for employee termination benefits (Note 23)	(251,196)	(347,250)
Other	379	-
Provision expenses	(6,121,647)	(1,893,897)

(*) Provision expense stems from provision expense on doubtful receivables from main operations amounting to TL 1,462,371 and provision expense on doubtful receivables from other receivables amounting to TL 11,467.

	31 December 2011	31 December 2010
Rediscount income / (expense) from insurance receivables	926,121	(723,671)
Rediscount income / (expense) due to reinsurance payables	(1,015,991)	(342,771)
Total of rediscounts	(89,870)	(1,066,442)