MİLLÎ REASÜRANS T.A.Ş.

77th year

Annual Report 2005


MİLLÎ REASÜRANS T.A.Ş.
GENEL MÜDÜRLÜGÜ
T.İŞ BANKASI A.Ş. KURULUŞUDUR
43-57

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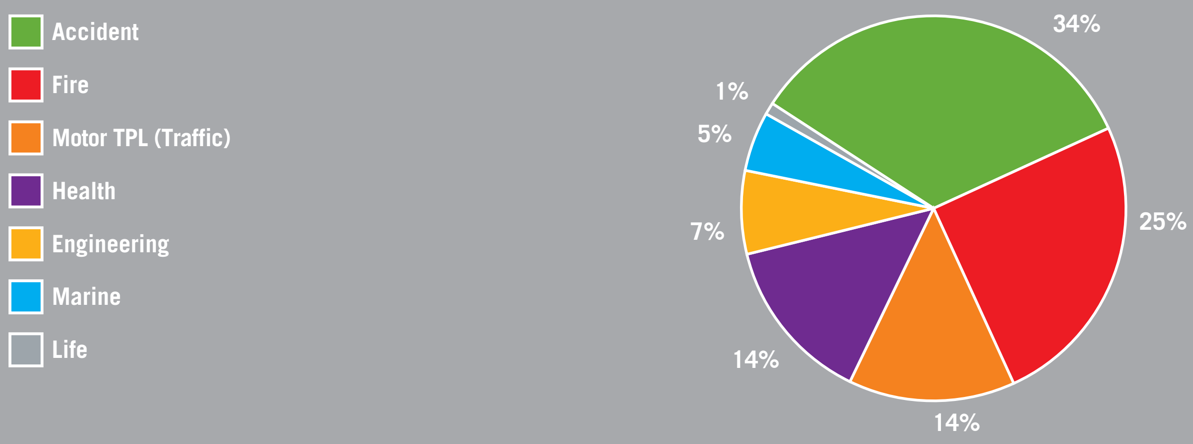
A.M. Best Assigns Rating to Millî Re

A.M. Best Co. has assigned a financial strength rating (FSR) of B+ (Very Good) to Millî Re and the outlook on rating is stable.

Commencing operations on 19 July 1929, Millî Reasürans (Millî Re) was set up by Türkiye İş Bankası (İşbank) to operate the compulsory reinsurance system on behalf of the Turkish Treasury. As the world's only private company operating a compulsory reinsurance system, another feature that distinguishes Millî Re from other compulsory reinsurance operators is that it accepts compulsory cessions in all insurance branches.

Millî Re in Brief

Branch-wise Breakdown of Total Premium Income



Millî Re was established in 1929 to implement the operation of the compulsory reinsurance system in Turkey. Being the only private company in the world operating compulsory reinsurance system, Millî Re's another distinctive feature from the similar compulsory reinsurance operators has been its operation in all branches.

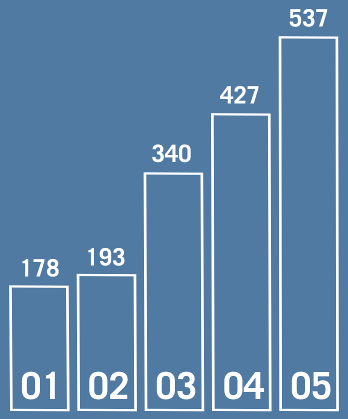
Following the termination of the compulsory reinsurance system at the end of 2001, Millî Re being the only local reinsurance company has been acting as a professional reinsurer in the Turkish market since 2002 and currently provides 30-35% of the Turkish reinsurance capacity.

Millî Re has started accepting business from emerging markets at the beginning of 2006 evaluating the strengthening of its financial structure and the stabilization of the value of Turkish Lira against hard currencies.

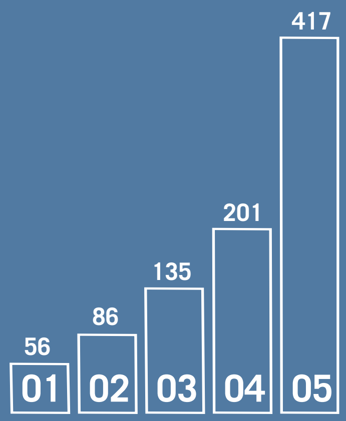
Key Figures (USD mn)	2001*	2002	2003	2004	2005
Gross Premiums	178	193	340	427	537
Net Premiums	151	162	294	365	470
Combined Ratio %	114	90	94	93	90
Profit for the Year	12	10	2	9	27
Assets	173	200	324	457	738
Liquid Assets	72	108	225	346	432
Paid-up Capital	15	14	16	47	254
Shareholders' Equity (**)	56	86	135	201	417

(*) Last year of compulsory reinsurance system
(**) Including contingency fund for earthquake

Premium Income
(USD mn)



Shareholders' Equity
(USD mn)



including contingency
fund for earthquake

Corporate Profile


Head Office


Maçka Office Building


Suadiye Sports Center

Commencing operations on 19 July 1929, Millî Reasürans (Millî Re) was set up by Türkiye İş Bankası (İşbank) to operate the compulsory reinsurance system on behalf of the Turkish Treasury. As the world's only private company operating a compulsory reinsurance system, another feature that distinguishes Millî Re from other compulsory reinsurance operators is that it accepts compulsory cessions in all insurance branches.

These compulsory reinsurance cessions continued on the basis of different systems and with different percentages until 1 January 1992, at which date they were replaced with another system whose purpose was to increase local retention as well as reinsurance capacity in the insurance industry. This new system consisted of two parts:

1. Compulsory cessions that had to be made on a per-policy basis in all branches other than Life.

2. Cessions that had to be made from the reinsurance contracts.

The first part of this system remained in effect for ten years, ending as of 31 December 2001 while cessions from reinsurance contracts were extended for another five years. Millî Re's management of these cessions, which are called the "Decree Pool", is to expire at the end of 2006.

Millî Re managed the Turkish Reinsurance Pool from 1963 to 1985, the Economic Cooperation Organization (ECO) Pool from 1975 to 1995, and the Turkish Catastrophe Insurance Pool (TCIP, whose formation it spearheaded) from 2000 to 2005. The company has also been managing the Federation of Afro-Asian Insurers and Reinsurers (FAIR) Reinsurance Pool since 1974.

Since 2002, Millî Re has been accepting business on a voluntary basis from Turkish insurers and currently supplies about 30%-35% of the industry's need for reinsurance coverage. The company's volume of premium, which amounted to USD 178 million in 2001, the year when compulsory cessions ended, reached USD 427 million by the end of 2004 and amounted to USD 537 million in 2005.

In November 2005, Millî Re raised its paid-up capital to TRY 343 million (USD 254.3 million).


Automatic Parking Garage

Büyükdere Business Center


Tunaman Parking Garage

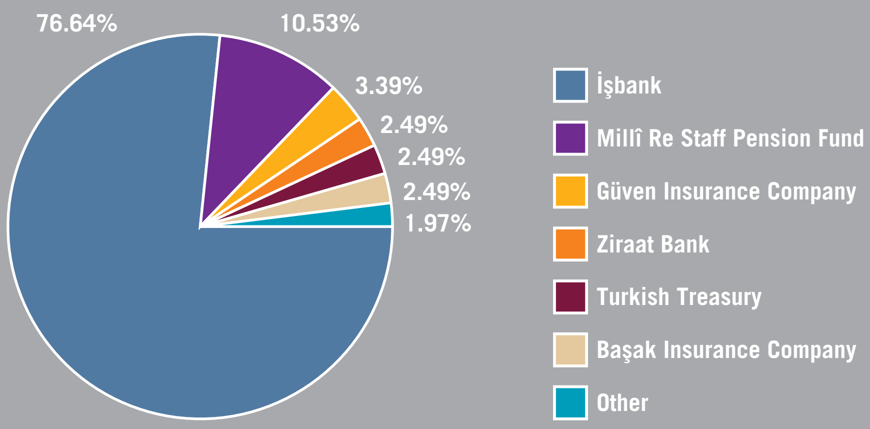
At the beginning of 2005, Millî Re acquired another Turkish reinsurance company, Destek Reasürans. In November, the company raised its paid-up capital to TRY 343 million (USD 254.3 million). As of year-end, the company's total shareholders' equity (including the contingency fund for earthquake) amounted to USD 417 million.

In 2006 Millî Re adopted a new strategy of accepting business from selected emerging markets up to predetermined limits. With the purpose of balancing the company's domestic acceptances with the foreign business, this strategy was reinforced and supported by the strengthening of the Turkish Lira against hard currencies which led to the minimization of currency translation losses. The scope of acceptances currently is limited with Asian and African countries.

To make it easier for the company to accept business from international markets and also to demonstrate its financial strength, in June 2005 the company applied to the worldwide insurance-rating and information agency A.M. Best Company to obtain a rating. The rating process was completed and as of the beginning of 2006 Millî Re was assigned a financial strength rating (FSR) of B+ (Very Good). A.M. Best grants this rating only to companies whose financial adequacy and capacity to fulfill their ongoing obligations are very good. This rating is proof of Millî Re's skill in risk-adjusted capitalization as well as of its success in its operational performance.

Successful in the past, Millî Re is committed to success in the future as well and will continue to create increasingly more added value for the insurance sector and for the national economy.

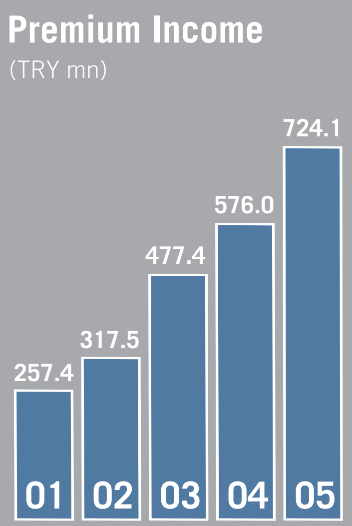
Millî Reasürans T.A.Ş. Shareholder Structure

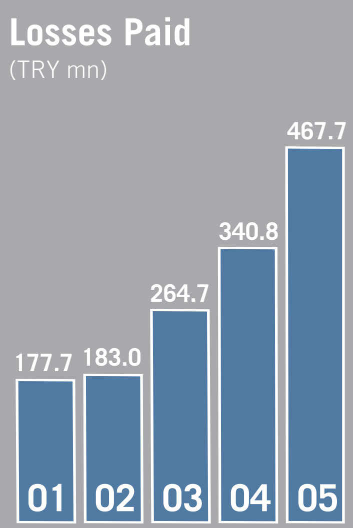


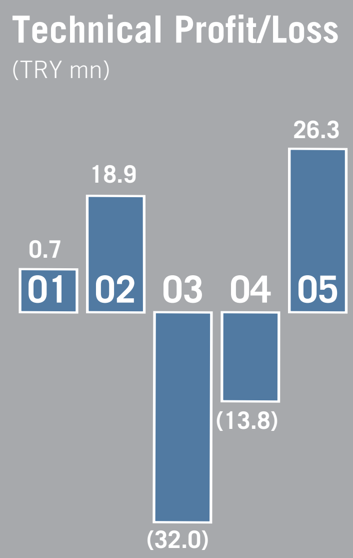
Shareholder	Value of Stake (TRY)	Stake (%)
İşbank	262,868,405.05	76.64
Millî Re Staff Pension Fund	36,116,486.78	10.53
Güven Insurance Company	11,630,272.41	3.39
Ziraat Bank	8,539,112.13	2.49
Turkish Treasury	8,539,112.13	2.49
Başak Insurance Company	8,539,112.13	2.49
Other	6,767,499.37	1.97
Total	**343,000,000.00**	**100**

Note: Only shareholders controlling a 1% or greater stake in the company have been detailed.

Key Figures







Financial Results (TRY mn)	2004	2005	Change (%)
Total Assets	616.4	995.7	61.5
Shareholders' Equity	183.2	465.7	154.2
Technical Income	903.8	1,204.2	33.2
Technical Profit/Loss	(13.8)	26.3	+
Financial Income	95.5	82.7	(13.4)
Financial Profit/Loss	25.4	10.6	(58.3)
Profit/Loss for the Period	11.6	36.9	218.1

Ratios (%)	2004	2005
Liquidity Ratio	137	136
Current Ratio	158	151
Gross Premiums/Shareholders' Equity	314	155
Shareholders' Equity/Total Assets	30	47
Liquid Assets/Total Assets	76	58
Loss Ratio (Net)	74	73

Chairman's Message

Prof. Dr. Ahmet Kırman
Chairman of the Board of Directors

One of the world's top 100 reinsurers

Millî Re was founded in 1929 by Türkiye İş Bankası (İşbank).

In today's worldwide reinsurance market, Millî Re ranks among the top one hundred reinsurers in terms of its net retained premiums.

The company has continuously provided the reinsurance coverage needed by the Turkish insurance industry with best possible terms in line with its capacity and by its prompt settlement of claims to enable insurance companies fulfill their obligations towards their policyholders.

In its 77 years, Millî Re went through two main developmental stages:

• Between 1929 and 2001, Millî Re managed compulsory reinsurance cessions on behalf of the Turkish Treasury.

• Between 2002 and 2005, with the abolition of compulsory cessions, Millî Re began developing its own portfolio.

With the beginning of 2006, Millî Re embarked upon a new stage of development involving expansion into international markets.

Destek Re joins Millî Re

Originally founded nearly eight decades ago to manage the compulsory reinsurance system, Millî Re has been steadily increasing the volume of its acceptances from the domestic market to the degree that its equity resources permitted ever since the end of that system in 2001.

In 2005 Millî Re acquired another reinsurance company, its sister company Destek Re, together with all its assets and liabilities.

This strategic merger was undertaken in line with Millî Re's goal of expanding internationally and had the effect of immediately making it possible for the company to accept business from markets in more than thirty countries in Asia (particularly those of the Turkic Republics, India, China, Korea, and Malaysia), Africa, and the Middle East.

A.M. Best assigns the company a B+ rating

In 2005, Millî Re received a financial strength rating of B+ (very good) from A.M. Best Company, one of the world's leading insurance-rating and information agencies. This rating, which is even better than Turkey's country rating, is an initial step that will support the company in its efforts to do more business in international markets.

In today's worldwide reinsurance market, Millî Re ranks among the top one hundred reinsurers in terms of its net retained premiums.

In the pursuit of this goal, Millî Re foresees that it will be securing about USD 150 million premium a year at the end of five years, in respect of business accepted from outside.

The world, Turkey, and Millî Re in 2005
2005 was a year of successful results for the Turkish economy as a whole and for Millî Re as a company.

While reliable estimates put worldwide economic growth in 2005 at 4.3%, the Turkish economy grew 7.6% last year. The biggest contributors to this growth were services, manufacturing, and construction. Compared with 2004, the pace of economic growth was somewhat less last year however. The main reasons for this are the unusually high rate of growth the year before, combined with contractions in exports and domestic demand.

Exports in 2005 were up 15.8% while the year-on rise in imports was an even higher 19%. Political and economic uncertainties in the EU, relative slowdown in global growth, increasingly heavy competition resulting from the removal of quotas in textiles and clothing, and costlier imports driven by higher oil prices are the most important factors contributing to this performance.

With the exception of its foreign trade deficit, the Turkish economy generally performed rather well in 2005. The country's insurance industry naturally benefited from this performance as well and registered significant growth.
As is true of all sectors of our national economy, while Turkey progresses along the path to EU membership, its insurance industry is going to be increasingly in greater need of well-trained, high-quality human resources and of strong, solid companies that are equipped with advanced technology.

Millî Re believes that the Turkish economy is fully capable of making even greater progress on its path of stable growth. As the national economy and insurance industry continue to grow, Millî Re will increase its market share both at home and in its target markets abroad, will expand the scope and quality of its service, and will continue to raise both the level of its performance and the standards by which it is judged.

In closing, I extend my best wishes that 2006 will be a year that helps to resolve the current problems of our industry, especially the legal framework needed.

Prof. Dr. Ahmet Kırman
Chairman of the Board of Directors

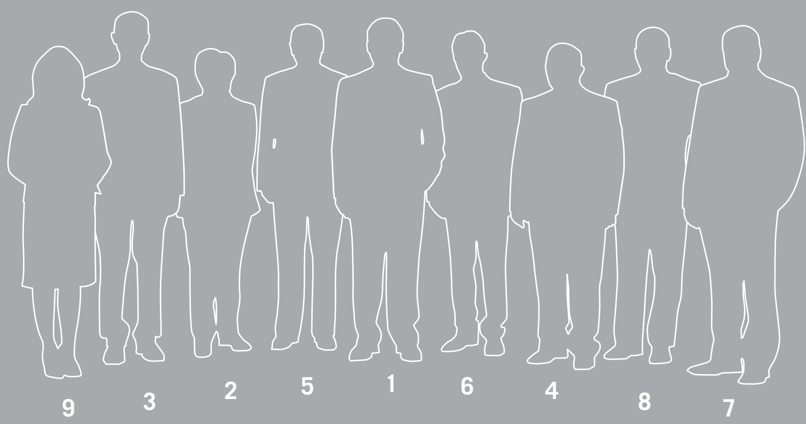
Board of Directors and Statutory Auditors

(1) Prof. Dr. Ahmet Kırman
Chairman of the Board of Directors
Prof. Dr. Kırman is a graduate of Ankara University (Faculty of Law) and holds a master's degree in EU competition law and a doctorate in private law from the Institute of Social Sciences of the same university. Prof. Dr. Kırman is Dean of the Faculty of Political Sciences of Ankara University and also a professor there, a member of the Faculty of Galatasaray University, a member of the Ministry of Finance Tax Council and Chairman of Türkiye İş Bankası A.Ş. and of Türkiye Şişe ve Cam Fabrikaları A.Ş. He has been Chairman of Millî Reasürans T.A.Ş. since 20 August 1999.

(2) Ayşe Taciser Bayer
Vice Chairman of the Board of Directors
Ayşe Taciser Bayer is a graduate of İstanbul University (Faculty of Economics). She began her career at Türkiye İş Bankası A.Ş. and served in various capacities in that Bank's branches and units. She currently holds the position of Reporter for that Bank's Board. Ms. Bayer has been a member of the Board of Directors of Millî Reasürans T.A.Ş. since 28 March 2005.

(3) Feridun Bilgin
Director
Feridun Bilgin is a graduate of İstanbul Technical University (Faculty of Electrical & Electronic Engineering). He currently undertakes duties for the State Planning Organization and is a Deputy Director-General at the Undersecretariat of Treasury of the Prime Ministry. He has been a member of the Board of Directors of Millî Reasürans T.A.Ş. since 31 August 2004.

(4) Oğuz Haluk Solak
Director
Oğuz Haluk Solak is a graduate of Middle East Technical University (Department of Business Administration) and began his career at Türkiye İş Bankası A.Ş., where he has served in various positions and capacities and is presently the Bank's Financial Affairs Manager. He has been a member of the Board of Directors of Millî Reasürans T.A.Ş. since 28 March 2005.



(5) Bahtiyar Sönmez
Director
Bahtiyar Sönmez is a graduate of the Ankara Academy of Economic and Commercial Sciences. He began his career at Türkiye İş Bankası A.Ş., eventually becoming a member of the Bank's Board, from which position he retired. He has been a member of the Board of Directors of Millî Reasürans T.A.Ş. since 2 May 2005.

(6) Cahit Nomer
Director and General Manager
Cahit Nomer is a graduate of İstanbul University (Faculty of Law) and has also pursued professional studies in Switzerland and the UK. He began his career at Millî Re, serving in various capacities at the company. In 1994-1996 he served as a member of CEA (Comité Européen des Assurances) Presidential Council and between 1981 and 2005 he served as Vice Chairman and then Chairman of the Association of the Insurance and Reinsurance Companies of Turkey for nearly a quarter of a century altogether. Mr. Nomer is currently the Director and the General Manager of the company.

(7) Hüseyin Yağcı
Statutory Auditor
Hüseyin Yağcı is a graduate of Middle East Technical University (Department of Statistics) and began his career at Türkiye İş Bankası A.Ş., where he has served in various positions and capacities and is presently the Manager of the Bank's Sefaköy branch. He has been a Statutory Auditor of Millî Reasürans T.A.Ş. since 28 March 2005.

(8) Memduh Aslan Akçay
Statutory Auditor
Memduh Aslan Akçay is a graduate of Ankara University (Faculty of Political Sciences, Department of Economics) and holds a master's degree in economics from the University of Illinois at Urbana Champaign in the United States.
He is currently working on his doctorate at Gazi University (Department of Accounting & Finance). Mr. Akçay has served in various positions and capacities in the public sector and is presently Director-General for Foreign Economic Relations of the Undersecretariat of Treasury of the Prime Ministry. He has been a Statutory Auditor of Millî Reasürans T.A.Ş. since 7 November 2005.

(9) Semra Anıl
Reporter
Please see page 12 for Ms. Anıl's CV.

General Manager's Message

Cahit Nomer
Director and General Manager

Real growth in the insurance industry
The Turkish economy grew 7.6% year-on in 2005.

This result is a reflection of the positive developments of all macroeconomic indicators save that of the foreign trade deficit. The Turkish insurance industry also registered real growth last year, though some would argue that it was not as much as it is capable of doing. The year-on rise in the sector's total premiums in 2005 was 15%, which is nearly double the 7.72% rate of consumer price inflation posted for the year.

The insurance industry once again completed another year without a governing legal framework that satisfies EU norms or requirements. Tax incentives granted to other sectors were not granted to the insurance sector. Misreading the free market system, companies choose to base competition not on improving product and service quality but on cutting prices with the result that our industry is repeatedly hampered by its own actors.

In addition to these problems, the growth and development of the Turkish insurance industry is also hampered in its efforts to reach the levels one finds in developed countries' insurance markets by an insufficient awareness of the importance of insurance in the general public's mind. As in the past, so too in 2005, expectations went unfulfilled and hopes must once again be deferred to the future.

Performance by individual branches
Competition in the sector had a particularly harsh impact on the Fire branch in 2005. Nourished by a strong new Turkish Lira, the energy experienced in imports inspired hopes of a rise in Cargo premiums in the Marine branch but it was not to be. The 33% increase registered in 2004 plummeted to a mere 8% in 2005.

Two other branches in which there were contractions in premium growth rate were Health and Life, the latter being the outcome of the large-scale movement of Endowment Life insurance policies over to the Private Pension System. The branches that experienced the strongest rises in premium production in 2005 were Credit (67%), Agriculture (65%), and Accident (23%). The last was largely due to a surge in Motor Vehicle insurance brought on by the strong growth in credit-financed automobile sales that was fed by tumbling bank interest rates.

A year of change in the sector and at Millî Re
For both the Turkish insurance industry and Millî Re, 2005 was an eventful year.

For the sector, some of the more important developments were a new uniform chart of accounts that went into effect as of January 1, a new Agricultural Insurance Law that went into effect on June 21 and the Agricultural Insurance Pool that it created, a number of new types of compulsory insurance such as for civil aircraft flying in Turkish airspace and personal liability insurance for those active in the oil market, and a change in the system for calculating the contingency fund for earthquake.

Millî Re's shareholders' equity rose 154% year-on in 2005 and reached TRY 465.7 million. With the inclusion of its contingency fund for earthquake, the company's total equity comes to TRY 562.1 million.

For Millî Re, 2005 was the year in which it took over its sister company Destek Re for the purpose of creating a more robust structure that will enable the company to compete effectively in international markets as it puts its experience and strengths in providing coverage and paying claims fast as the only local reinsurer in the Turkish insurance industry to work in international reinsurance markets as well. The acquisition took place in January and by May the merger was completed.

Expanding into international markets

Millî Re's strategy of expanding into international markets focuses initially on some thirty developing insurance markets in Asia, Africa, and the Middle East. A most important development in line with this is the B+ (Very Good) financial strength rating that Millî Re received in 2005 from A.M. Best, one of the world's leading insurance-rating and information agencies.

The company's shareholders' equity, which is also vitally important to its goal of moving into international markets, rose 154% year-on in 2005 and reached TRY 465.7 million. With the inclusion of its contingency fund for earthquake, the company's total equity comes to TRY 562.1 million.

Premium income up 26%

In the twelve months to end-2005, premium income rose 26% and reached TRY 724 million. 88% of this was retained by Millî Re.

In 2005 Millî Re posted a technical profit of TRY 26.3 million and a financial profit of TRY 64.9 million. General expenses came to TRY 36 million.

On the basis of these results, Millî Re's pretax profit in 2005 was TRY 55.2 million and its after-tax profit was TRY 36.9 million.

Shaping the future with 77 years of experience

Millî Re has been contributing to the growth and development of our national insurance industry for seventy-seven years. We have full faith and conviction that these contributions will endure and become even greater in the years ahead.

With this in mind, Millî Re will continue to support the industry with its ability to provide suitable coverage and prompt claims settlement and with its extensive technical knowledge. In many respects, 2006 will be our company's first year on the path leading to the international expansion of its activities.

In closing I extend my sincerest thanks to all the players in our insurance industry for their steady and increasing confidence in Millî Re and to all our employees for the generous and concerted physical and mental energies that they expended on behalf of Millî Re.

Only with their support can 2006 be a year in which our sector's and our company's expectations can hope to be satisfied.

Cahit Nomer
Director and General Manager

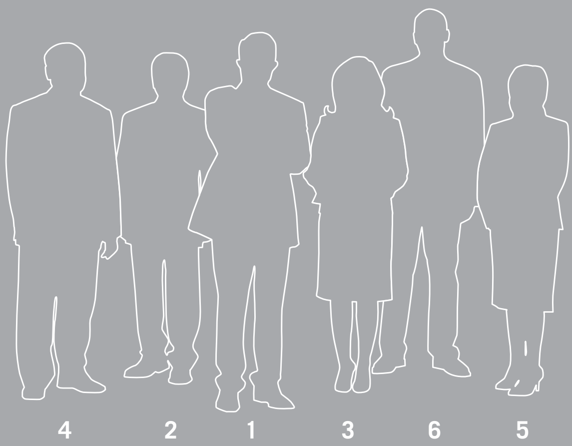
Senior Management

(1) Cahit Nomer
Director and General Manager
Please see page 09 for Mr. Nomer's CV.

(2) Barbaros Yalçın
Assistant General Manager
Barbaros Yalçın is a graduate of İstanbul University (Faculty of Law) and began his career at Millî Re in the Fire Department. He has pursued professional studies in Switzerland and the UK. He is currently Millî Reasürans T.A.Ş.'s Assistant General Manager responsible for technical affairs and also serves as the Vice President of the Turkish Earthquake Foundation and of the Turkish Insurance Institute Foundation and as Chairman of the Association of the Insurance and Reinsurance Companies of Turkey's Fire Insurance Study and Research Committee.

(3) Semra Anıl
Assistant General Manager & Legal Adviser
Semra Anıl is a graduate of İstanbul University (Faculty of Law). She began her career in the Accounting Department of Millî Re and later served as a Company Attorney in the Legal Department. She became a Legal Adviser in 1993, a position that she still holds. She has been Assistant General Manager responsible for administrative affairs and personnel and also Board of Directors' Reporter since 1997.

(4) Hüseyin Yunak
Assistant General Manager
Hüseyin Yunak is a graduate of İstanbul University (Faculty of Business Administration) and began his career in insurance with Millî Re in 1980. He studied Marine insurance abroad and served as Manager of Marine Department and TCIP affairs coordinator. He is currently Assistant General Manager responsible for international reinsurance acceptances. He is also Chairman of the Association of the Insurance and Reinsurance Companies of Turkey's Marine Insurance Study and Research Committee and a lecturer at the Turkish Insurance Institute.



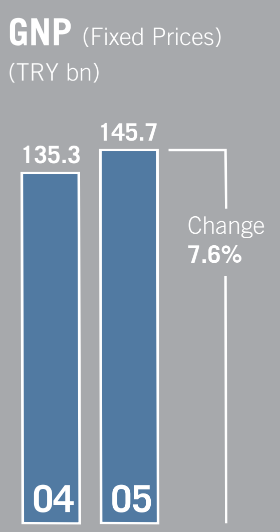
(5) Füsun Ersöz
Assistant General Manager

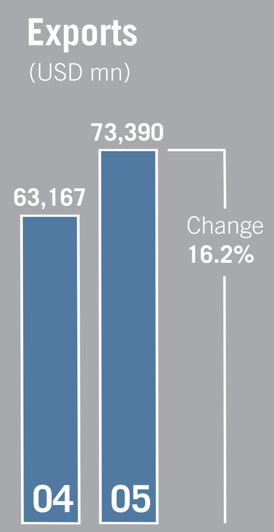
Füsun Ersöz is a graduate of İstanbul University (Faculty of English Philology) and she began her career at Millî Re immediately after graduation. She has taken part in a number of professional training programs abroad.
After serving as an officer responsible for acceptances by the FAIR Pool under Millî Re's management, she worked in the Treaty Department set up to handle domestic acceptances and reinsurance. She is currently Assistant General Manager responsible for domestic acceptances and reinsurance.

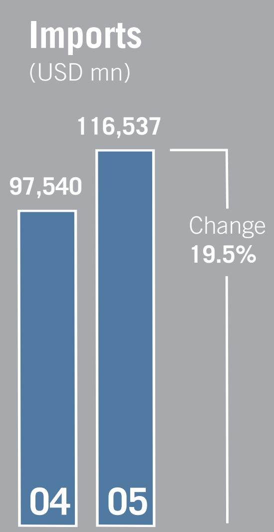
(6) Hasan Hulki Yalçın
Assistant General Manager

Hulki Yalçın is a graduate of Middle East Technical University (Department of Economics) and holds a master's degree in international banking and finance from the University of Birmingham in England. After serving in various positions and capacities with Türkiye İş Bankası A.Ş. for fourteen years, he joined Millî Reasürans T.A.Ş. in 2003 and subsequently took part in a number of professional training programs abroad. He is currently Assistant General Manager responsible for accounting and financial affairs.

The Turkish Economy in 2005 and the Expectations







The Turkish economy

The Turkish economy in 2005 posted an overall 7.6% rate of growth: more than two and a half points above the 5% that the government's program had set. This growth was driven largely by the strong performance of services, manufacturing, and construction sectors in the first three quarters of the year. While growth did slow down somewhat in the last quarter, that was partially by comparison with the high rate of growth that had been achieved in the previous year but was also attributable to contractions in exports and domestic demand. The public sector, which experienced a contraction in 2004, contributed more favorably to growth in 2005. Somewhat worrisome however were the 11.9% and 12.5% contractions in textile and clothing manufacturing respectively as those are the most important generators of Turkey's export revenues.

The 33.7% year-on rise in exports in 2004 slipped to 16.2% in 2005. The most significant factors contributing to this decline were a relative slowdown in global growth, political and economic uncertainties in the EU (being one of Turkey's biggest export markets), increasingly heavy competition resulting from the removal of quotas in textiles and clothing, and costlier imports brought on by high oil prices. Imports on the other hand were up strongly last year for a number of reasons but especially because a strong Turkish Lira made them less expensive and because of high commodity price levels-the most important of which of course being oil. Total exports in 2005 amounted to USD 73.4 billion while imports came to USD 116.5 billion. The foreign trade deficit was made even wider by slower growth and adversely affected the current account deficit, which reached USD 43 billion, 24% higher than what it had been the year before and the country's imports coverage ratio slipped to 63%.

The current account yielded a USD 23.1 billion deficit in 2005 and reached 6.4% of GNP (5.2% in 2004). The two main contributors to this were the rise in oil prices and a greater foreign trade deficit resulting brought on by a strongly appreciating Turkish Lira.

Net tourism income, which reached USD 15.3 billion in 2005, helped keep the current account deficit in check. The rising trend in tourism income experienced in recent years continued in 2005. The total number of arrivals last year was 21.1 million and total revenues amounted to USD 18.2 billion. On this basis, the ratio of tourism revenues to GNP was on the order of 5.1% in 2005.

Foreign direct investment reached record-breaking levels in 2005 and significantly improved the quality of current account deficit financing. In 2000, such investments covered only 1% of the current account deficit; in 2005, they reached the 38% level. Foreign investors focus both on the progress of Turkey's EU accession and the country's privatization program. It is expected that these factors will fuel additional increases in foreign direct investment in 2006 as well.

Turkey's banking industry successfully tapped international markets for funding in 2005 but so too did many others. While the banking sector had net international borrowings of USD 9.1 billion, the other sectors together brought in a total of USD 10.1 billion. Furthermore the greater share of long-term lending in the total (84% in 2005 as opposed to only 65.8% in 2004) is generally regarded as a very positive development.

Foreign investors focus both on the progress of Turkey's EU accession and the country's privatization program. It is expected that these factors will fuel additional increases in foreign direct investment in 2006 as well.

Foreign Trade

USD mn	2004	2005	% Change
Exports	63,167	73,390	16.2
Imports	97,540	116,537	19.5
Foreign Trade Deficit	(34,373)	(43,147)	25.5
Imports Coverage Ratio (%)	64.8	63.0	

Despite higher oil and other international commodity prices, and continued shortages in the services sector, inflation remained on its downward course thanks to tight fiscal policy, the appreciation in the Turkish Lira, and modest pressure coming from domestic demand. The year-on rise in the consumer price index was 7.72%: the lowest experienced in thirty-seven years. The rise in producer price index on the other hand was an even lower; 2.66%. The greatest contributors to the rise in the CPI in 2005 were housing, food, alcoholic beverages and tobacco products while seasonal products and unprocessed food prices helped keep the index down. The appreciation in the Turkish Lira is what primarily kept the PPI intact despite the strong rise in oil prices.

Overnight borrowing rates, which were around 18% at the beginning of 2005, slipped to 13.5% by year-end mainly due to the downward trend in inflation, sustained budget discipline, the start of EU accession negotiations, and the positive remarks of international rating agencies about Turkey's credit-worthiness. The benchmark compound interest rate on government borrowing instruments, which was also around 20% at the beginning of 2005, was down to 13.83% by the end of the year. The risk premium on Turkish eurobonds, which was 265 basis points in 2004, was down to 223 basis points in 2005.

Although the new Turkish Lira launched at the beginning of the year depreciated 0.1% against the US dollar in 2005, this was mostly due to the movements in the EUR/USD parity in favor of the dollar. In fact, the Lira rose 12.9% against the Euro and 6.6% against a basket consisting of USD 1.00 and EUR 0.77. The CPI-based real exchange rate index rose 19.6% last year.

The rise in non-agricultural employment in 2005 was 1.2 million however the rapid decline in employment in agriculture meant that the net increase in total employment was only 255,000. Agriculture contributed a smaller share of total employment last year while the shares of industry, services and construction were all up. At 10.3%, the official unemployment rate was virtually unchanged in 2005 though in non-agricultural job categories, the rate did slip slightly over a point from 14.7% to 13.6% and this is thought to be a good development. The inability to achieve any improvement in the country's seemingly intractable unemployment rate despite several years in a row of high growth is almost entirely due to the steady and rapid attrition in agricultural employment combined with new entries into the workforce that are taking place faster than the creation of available jobs.

The expectations

In its medium-term program for the years 2006 to 2008, the government announced that its priorities are maintaining economic growth at a sustainably high rate, increasing employment, bringing inflation down to levels typical of developed economies and keeping it there, reducing the public sector borrowing requirement to zero by the end of the program period, and keeping the ratio of public debt to national income on its downward course. The government's economic targets for 2006 are 5% real growth, 5% CPI inflation, and a primary surplus of 6.5% of GNP.

The IMF-backed economic program has definitely created a climate of confidence while the start of the country's EU accession negotiations has put markets in a very good mood. These two factors combined with a continued decline in inflation, meaningful progress in structural reforms and stability in the floating exchange rate system should put those targets within reach in 2006.

An Overview of the Turkish Insurance Industry

Millî Re has been accepting business under free market conditions since the beginning of 2002, the year compulsory reinsurance in the Turkish insurance industry has ended.

The first national insurer: Osmanlı Umum Sigorta Şirketi

Insurance in the modern sense got its start in Turkey in the second half of the 19th century when foreign insurance companies began establishing agencies in the empire. At the time, there was not even a legal framework governing insurance in the country with the result that the activities of these early insurers were not subject to any regulation or legal supervision whatsoever for many years. The first Turkish insurance company was founded in 1893 and was known as the “Osmanlı Umum Sigorta Şirketi”.

Under the Republic of Turkey...

After the declaration of the Republic in 1923, a strong campaign was mounted to reduce foreign companies' dominance of the country's insurance industry. A legal framework was created that governed the establishment and operation of insurance companies and made them subject to government control for the first time.

Beginning in 1927, laws were introduced that placed all the activities of an increasingly greater number of domestic and foreign insurance companies under full control, safeguarded the rights and interests of policyholders and beneficiaries, protected the national insurance industry, limited foreign exchange outflows through reinsurance, and regulated tariff applications. In the wake of these developments there followed a period of rapid growth and development in which the number of companies funded with domestic capital increased and insurers became financially stronger.

Millî Reasürans is founded

In 1929, Millî Reasürans was founded with the objectives of preparing the groundwork for the nationalization of the country's insurance industry, preventing massive foreign exchange outflows by making it possible for some of the premiums going abroad through reinsurance to remain in the country and providing a source of revenue for the Treasury. This marked the beginning of an era of compulsory reinsurance in the Turkish insurance industry that would last 72 years until terminated at the end of 2001. Since the beginning of 2002, Millî Re has been accepting business just like any other reinsurer under free market conditions.

The introduction of compulsory Traffic insurance in 1953 created a new and dynamic line of business for insurance companies. The legal framework governing insurance companies was revised in 1955 and regulations were added that required insurers to be corporate entities in the form of a joint-stock company or a cooperative, made government licensing compulsory for foreign insurance companies and mandated the annual publication of companies' balance sheets. Within this general framework, the Turkish insurance industry grew rapidly, particularly in the Fire, Marine, Accident, Agricultural and Life branches.

Total premium production in the sector in 2005 amounted to about TRY 7,816 million. This represents a year-on rise of more than 15%.

Audit and supervision in the Turkish insurance industry

In 1957, Parliament passed the country's new commercial code, the fifth volume of which was concerned with insurance law. In 1959 this was followed with the passage of Law numbered 7397 ("Law concerning the audit and supervision of insurance companies") which subjected insurers to strict government supervision.

The legal authorities and organizations responsible for the regulation and supervision of the insurance industry in Turkey today are the Undersecretariat of Treasury, the Insurance Supervisory Board and the Association of the Insurance and Reinsurance Companies of Turkey.

Undersecretariat of Treasury: Decree numbered 303 (1987) transferred the authority for the regulation of the insurance industry from the Ministry of Industry and Commerce, which had previously been responsible for it, to the Prime Ministry. Under this decree, the prime minister was authorized to delegate his insurance-related responsibilities to a minister of state, if necessary. Law numbered 4059 (1994) allowed the ministry's supervisory authority over insurance companies to be exercised through the General Directorate of Insurance of the Undersecretariat of Treasury.

Insurance Supervisory Board: On behalf of the Undersecretariat of Treasury, this Board reviews the conduct of all of the activities of insurance companies for administrative, financial and technical compliance with the requirements of Law numbered 7397.

Association of the Insurance and Reinsurance Companies of Turkey: The Association was founded under the Insurance Supervision Law (Law numbered 7397) to support the improvement and development of insurance in Turkey and encourage cooperation among insurers. Under Law numbered 3379, the Association acquired the status of a quasi-governmental organization with the responsibility for representing all insurers on every issue that is of concern to the industry.

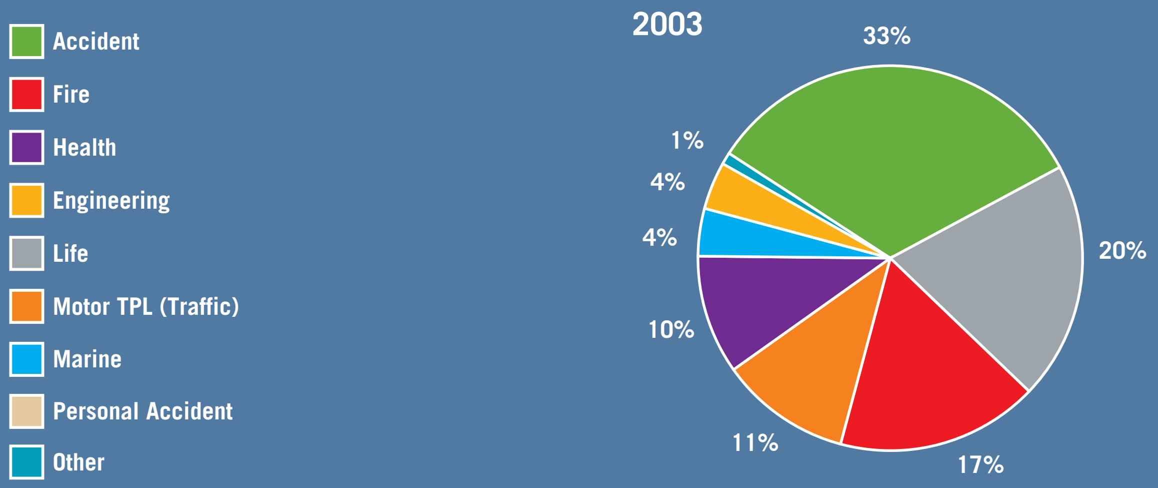
Catastrophe insurance

Some 96% of Turkey is exposed to various degrees of earthquake risk and 98% of the country's population lives in such areas.

Turkey has suffered tremendously from earthquakes over the centuries and the risks to which the country's people are exposed by such natural disasters were underscored by the terrible Marmara earthquakes of 1999. Decree numbered 587 promulgated the same year introduced a system of compulsory earthquake insurance. Effective as from 27 September 2000, earthquake insurance was made compulsory for all types of residential buildings falling within the scope of the decree's purview.

A public entity was set up to manage the Turkish Catastrophe Insurance Pool (TCIP). There are currently 25 insurance companies (and their agencies) that are authorized to write compulsory earthquake insurance for dwellings on behalf of TCIP. The compulsory system introduced for residential buildings in Turkey quickly proved to be successful and today it is pointed to as a model to be followed by many other countries that are also exposed to earthquake risk.

Branch-wise Breakdown of Total Premium Income



Private pension system

In 2001 Parliament passed Law numbered 4632, a law establishing a "Private Pension Savings and Investment System" in Turkey with the intention of complementing the existing state-run social security system. The Turkish Private Pension System set up under this law is based on the principle of voluntary participation and is designed to provide people with an additional source of income which would enable them to improve the level of their affluence in their retirement years. A second but equally important objective of the system is to create a pool of long-term funding that can operate for the benefit of the economy and to help increase employment. The private pension companies that were set up commenced operations in October 2003. There are eleven such companies active in the Turkish insurance industry today. As of end-2005 the number of participants in the system was 736,361 and the total value of portfolio under their management was about TRY 1.5 billion.

TRAMER

In the Turkish insurance industry, traffic insurance accounts for about a 19% share of total Non-Life premium production.

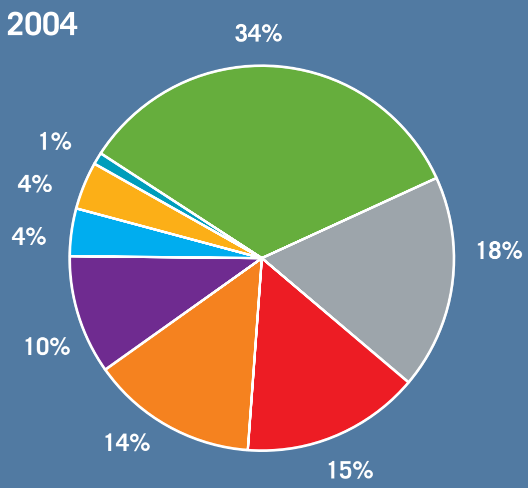
Because of its compulsory nature, traffic insurance leads to disputes between policyholders and insurers more often than not. To deal with an evidentially large number of illegitimate policies as well as uninsured vehicles, the government published the Traffic Insurance Information Center Regulations on 16 March 2003.

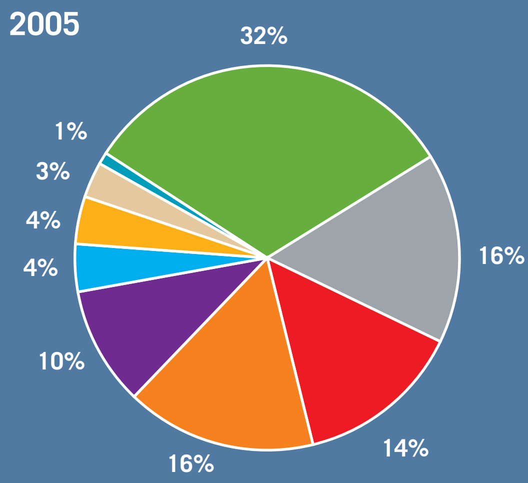
As called for in those regulations the Traffic Insurance Information Center (whose Turkish acronym is TRAMER) was set up under the auspices of the Association of the Insurance and Reinsurance Companies of Turkey. Insurance companies that are licensed to deal in traffic insurance are automatically members of TRAMER, whose objectives are to achieve uniformity of practice in traffic insurance, prevent insurance fraud, improve public confidence in the insurance system, identify those who operate uninsured vehicles and formulate a healthy pricing mechanism. These objectives are achieved by pooling information related to traffic insurance policies and making them available for use according to specified levels of authority.

Foreign direct investment

Foreign direct investment in Turkey mainly focused on the financial sector with financial groups, hence banks ranked high among the firms most targeted by it. The untapped potential in insurance and several years now of sustained real economic growth combined with the start of Turkey's EU accession negotiations have drawn the attention of foreign insurers to the Turkish insurance industry and this attention is expected to continue in the years ahead as well.

2005 was a rather lively year from the standpoint of the foreign investments made in the Turkish insurance sector. There was a foreign capital presence in five of the top ten companies in premium production last year and their total market share was more than 34%.





Companies
Although official figures have not yet been announced, at end-2005 there were 53 companies licensed to operate in the Turkish insurance market. Of these, 21 were Life and/or Private Pension companies and of those, 11 were exclusively Private Pension companies. Two of these companies were not currently authorized to enter into new contracts. Of the 32 Non-Life companies, 6 were inactive.

Total premium production in the sector in 2005 amounted to about TRY 7,816 million. This represents a year-on rise of more than 15%.

Branches
Accident policies generated 32% of total premium production. This was followed in turn by Motor Third-Party Liability and Life policies at 16% each. The Fire branch commanded a 14% share and Health weighed in at 10%. Marine and Engineering policies provided 4% each while Personal Accident insurance contributed a 3% share. The remaining 1% came from Agricultural, Legal Costs and Expenses and Credit insurance policies.

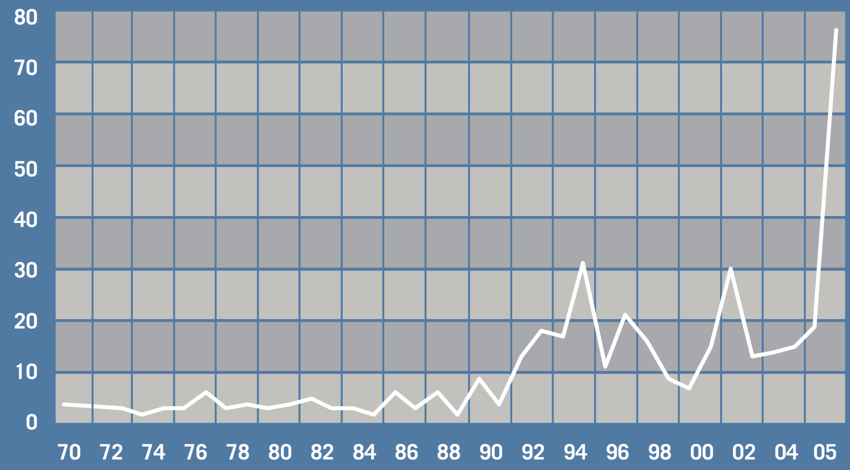
In 2005, the average year-on rise in premium production in all branches except Life was on the order of 18%. In Life insurance however, the increase was around 1%. This is because there was a tremendous number of endowment Life insurance policies that were converted into Private Pension contracts with the launching of Turkey's Private Pension System.

Premium Income
In 2004 the year-on rise in premium production was 33%, more than twice the 15% increase booked by the Turkish insurance industry in 2005. This statistic is misleading because it does not take inflation into account. After many years of chronically high double-digit inflation, the Turkish economy moved into the single-digit realm in 2005. The real increase in the industry's premium production in 2005 was better than seven points above the posted rate of consumer price inflation.

It is known that only 10-15% of the insurable risks in our country have insurance coverage which shows that only a limited portion of the potential is utilized.

An Overview of the Worldwide Reinsurance Market in 2005

Insured Catastrophic Losses
(USD bn)



A year plagued by natural disasters
From the standpoint of insurance and reinsurance markets, 2005 was an extraordinary year severely plagued by terrible natural disasters in many different parts of the world.

The latest figures put the death toll from natural disasters in 2005 at over 110,000 worldwide. Natural disasters are thought to have caused about USD 200 billion in economic losses of which a record-breaking USD 80 billion was covered by insurance.

The North Atlantic hurricane season in 2005 brought with it the most destructive storms ever experienced since records started to be kept around the middle of the 19th century. There were no fewer than three Category 5 hurricanes last year: Katrina (which caused about USD 45 billion in insured losses), Wilma (8 billion) and Rita (USD 10 billion).

Hurricane Katrina
Hurricane Katrina described as the “SuperCat Event”, was the costliest and one of the deadliest hurricanes in the history of the United States. For the insurance industry it has gone on record as the worst single event. Causing tremendous losses in virtually every branch, Katrina is estimated to have been responsible for over USD 100 billion economic loss.

The initial reaction in the wake of the Katrina loss was that this single event would fundamentally change reinsurance markets, would lead to a huge shrinkage in capacity and would result in re-rating of reinsurance companies. That this was an overreaction became apparent with the beginning of 2006 renewals. Conjectures that Katrina had “sounded the death knell” for retro markets also proved to be groundless when it turned out that the demand for reinsurance capacity was being met even in the areas most seriously affected by the storm. As expected of course, there were significant rises in catastrophe insurance prices in the United States but this initial reaction subsided and the expected increases did not materialize in other parts of the world.

Companies with sound balance sheets
The collapse in capacity that took place after Hurricane Andrew in 1992 and in the wake of September 11th did not occur this time. At the time of the World Trade Center attack in 2001, insurance and reinsurance companies' balance sheets were not in very good shape to begin with and that fact contributed significantly to the problems that the sector experienced. Prior to the 2005 losses, balance sheets were generally much sounder with the result that companies were better positioned to deal with them.

Natural disasters have caused about USD 200 billion in economic losses of which a record-breaking USD 80 billion was covered by insurance.

Anticipating that prices would rise in the wake of 2005 year losses and that capacity would shrivel, more than 8 billion dollars in capital was pumped into newly-formed companies. This injection led to the formation of fresh capacity. Furthermore responding to the pressures of rating agencies to spread risks out on a regional basis, use of capacity was encouraged in regions relatively less exposed to risk.

In addition to the USD 7.4 billion in capital that was invested in nine new companies set up in Bermuda in 2005, a number of active companies increased their capitalization as well.

Meanwhile international rating agencies...

While insurance and reinsurance companies were paying off their shares of the losses that were sustained in 2005 or else setting aside provision for outstanding losses, international rating agencies also turned their eyes to the companies that had been impacted by the losses. Formulating different loss scenarios, they changed their required capitalization criteria on the basis of the results.

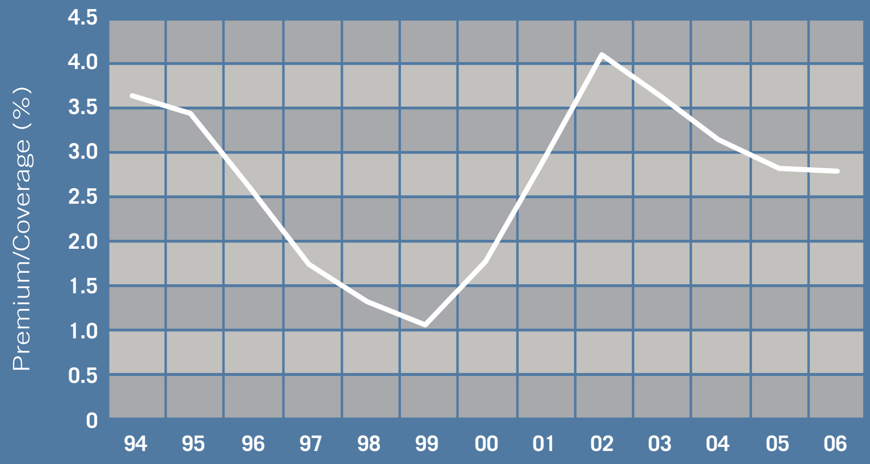
Although Standard & Poor's rated the reinsurance sector's overall appearance as “negative”, major reinsurance groups were given “stable” and even “positive” ratings by S&P and A.M. Best.

Another outcome of the North Atlantic hurricanes in 2005 was that people began questioning the performance and the necessity of catastrophe modeling.

In view of expectations that catastrophic events are going to become more frequent and that the value at risk are only going to increase due to ongoing developments in urbanization and infrastructure as well as to the proliferation of insurance products, it is likely that rating agencies, risk modeling firms and reinsurance companies are going to be demanding more transparent and analytical portfolio and accumulation control.

The Turkish Reinsurance Market in 2005

Catastrophe Coverage



Successfully overcoming the problem of capacity in Turkey
The impact of the hurricane-caused losses in 2005 was countered by capital increases undertaken to create new capacity as well as by a strong demand for reinsurance coverage. This situation had the effect of putting an end to the fall in catastrophe coverage prices that had been going on for the last three years in Turkey and resulted in 2006 renewals taking place at the same price levels.

The shortage caused when some Lloyd's syndicates and Bermuda companies stopped accepting business from the Turkish market due to changes in their business acceptance policies was filled by a number of reinsurers active in the region shifting their capacities from other parts of the world to Turkey with the result that no problems with capacity were experienced. The amount of catastrophe coverage purchased by insurance companies for 2006 was USD 2.2 billion while the respective premiums amounted to about USD 60 million. When the coverages obtained by TCIP and Millî Re are included, the total amount of coverage comes to USD 3.8 billion and premiums payable to USD 135 million.

Increasing demand on the part of cedants for Catastrophe, Liability and Personal Accident business is an indication both of the natural development of the local market and of the appreciation of the Turkish Lira against the Euro.

In proportional reinsurance contracts, no capacity problems were encountered during 2006, renewals and the market made it through the renewal season without difficulty.

Fire and Engineering proportional reinsurance contracts were renewed with minimum premium conditions, and event and annual aggregate limitations for earthquake and terrorism. Machinery Breakdown reinsurance contracts, which had been performing very poorly for some time, made up the most important subject of renewals and a number of clauses and terms aimed at improving results was put into effect as of 1 January 2006.

The amount of catastrophe coverage obtained by insurance companies for 2006 was USD 2.2 billion while the respective premiums amounted to about USD 60 million.

Turkish Insurance Market branch-wise reinsurance premiums for 2005 compared with 2004 and their percentages in terms of written premiums are as follows:

TRY (thousand)	2004			2005		
	Written Premiums	Reinsurance Premiums	%	Written Premiums	Reinsurance Premiums	%
Fire	1,067,121	723,711	68	1,136,331	691,007	61
Marine	268,596	125,752	47	290,631	136,774	47
Motor TPL (Traffic)	1,052,423	225,229	21	1,281,439	254,998	20
Accident	2,186,524	599,335	27	2,696,843	692,866	26
Engineering	275,452	212,116	77	322,110	223,168	69
Agriculture	29,417	18,055	61	48,530	30,334	62
Health	681,487	169,915	25	798,539	197,255	25
Non-Life Total	**5,561,020**	**2,074,113**	**37**	**6,574,423**	**2,226,402**	**34**
Life	1,205,581	32,190	3	1,242,011	34,293	3
Total	**6,766,601**	**2,106,303**	**31**	**7,816,434**	**2,260,695**	**29**

A General Evaluation of Millî Re's 2005 Activities

In May 2005, Millî Re took over all of Destek Re's assets and liabilities.

A year of changes
2005 was a year marked by a number of important changes for Millî Re.

Having decided to merge with its sister company Destek Re in order to increase its activities in the reinsurance market, bolster its competitive edge, and strengthen its financial structure, in May Millî Re took over all of Destek Re's assets and liabilities.

After the abolishment of the compulsory reinsurance system, the payments that began in 2004 under the lease contract signed between the Undersecretariat of Treasury and Millî Re on 22 April 1992, regarding the management of this system, were completed on schedule as of 31 March 2005 and Millî Re has completely fulfilled all of its obligations under that contract.

Increase in paid-up capital
Two share capital increases totaling TRY 280 million were undertaken last year that raised Millî Re's paid-up capital to TRY 343 million from its 1st January level of TRY 63 million.

To demonstrate the company's financial strength, it was decided that Millî Re would have itself rated by an internationally respected rating agency. An agreement was reached with A.M. Best, a noted specialist insurance-rating and information agency and the rating process began during the year.

As a result of that process, Millî Re was assigned a rating of B+ (Very Good) by A.M. Best, confirming the strength of its financial structure and the success of its performance. This rating is also the highest ever obtained by a Turkish company on a global scale.

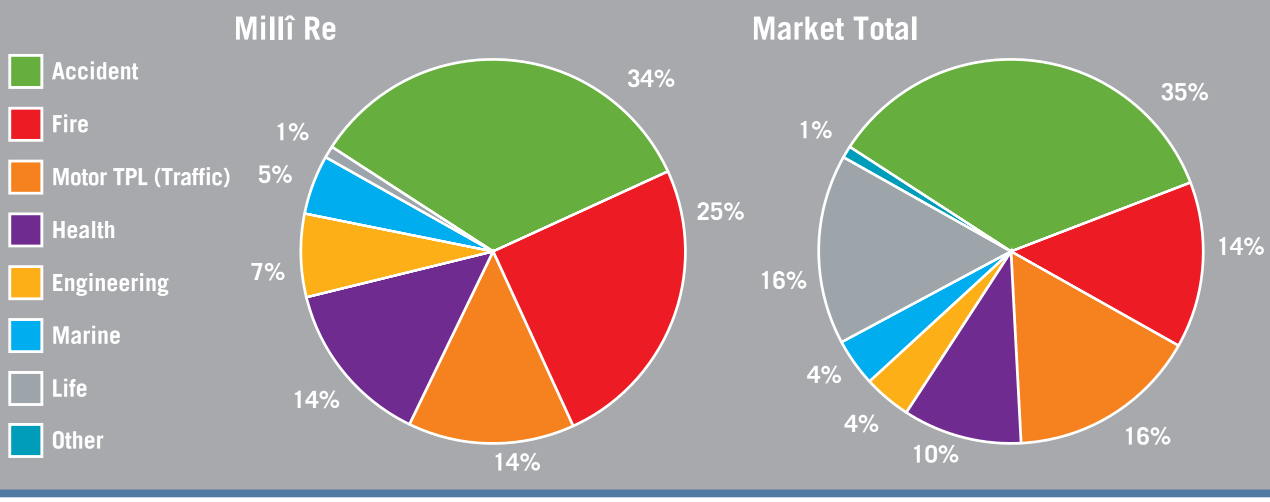
In the twelve months to end-2005, Millî Re registered increases of:

- 61.5% in total assets
- 154.2% in shareholders' equity
- 444.4% in paid-up capital
- 25.7% in premium income
- 218.1% in profit for the period.

It should be considered as an extremely satisfying performance given the existing economic conditions.

Technical Results in 2005

Branch-wise Breakdown of Premium Income in 2005



Every year the Undersecretariat of Treasury's Insurance Supervisory Board prepares and publishes a report on the insurance industry.

Although the report for 2005 has not yet been released, some information about premium production last year has been announced by the Association of the Insurance and Reinsurance Companies of Turkey. According to these preliminary figures, total premium production in the Turkish insurance sector in 2005 amounted to TRY 7,816 million which corresponds to a year-on rise of about 15%. Of the total, Life branch accounted for a 16% share and in this branch the twelve-month rise was only 1%. In Non-Life branches which account for 84% of the total premium, the rate of increase in premium production was 18%.

The increase in premium production was seven points higher than the posted rate of consumer price inflation of 7.72% in 2005, which is a sign of real growth in the sector's performance last year.

According to available figures, the top ten insurance companies in the sector produced more than 75% of Non-Life premium and more than 89% of total Life premium. Similarly the top twenty companies produced more than 94% of Non-Life and 99% of Life premium. Since there were 53 licensed companies as of end-2005, this clearly defines that the number of companies active in the market is more than it should be.

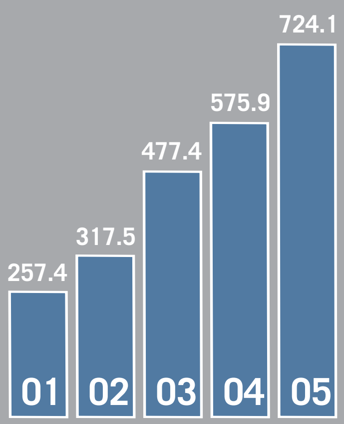
In 2005 the company produced a total premium of TRY 724,055,635, which corresponds to a year-on increase on the order of 26% that is well above the overall rise experienced in the market.

In 2005 Millî Re by itself accounted for more than 9% of total market premium production. Millî Re's branch-wise breakdown of premium is different from that of the market as a whole.

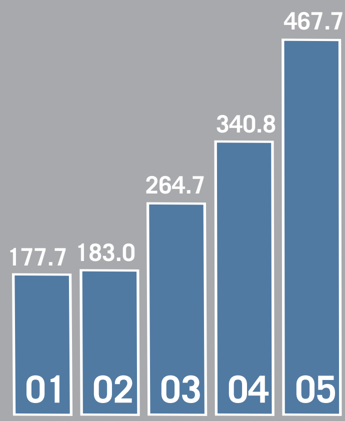
The need for reinsurance in Life insurance is very limited, which is the reason why this branch constitutes only a small percentage of Millî Re's portfolio. In the Accident, Motor TPL, and Marine branches the company's share is close to the sector averages while in the Fire, Health and Engineering branches it is greater.

While Millî Re retroceded 14.5% of its written premium in 2004, this percentage slipped to 12.4% in 2005, showing that company's retention ratio reached 87.6%.

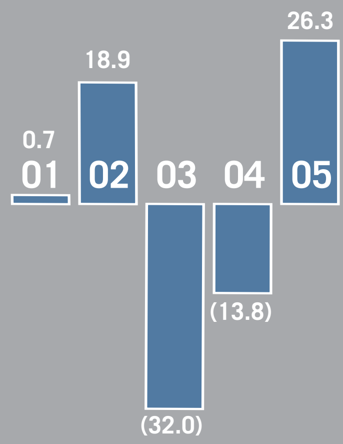
Premium Income
(TRY mn)



Losses Paid
(TRY mn)



Technical Profit/Loss
(TRY mn)



Millî Re's technical profit/loss account in 2005

Fire	TRY	31,969,623	profit
Marine	TRY	6,727,289	profit
Accident	TRY	13,207,798	loss
Motor TPL (Traffic)	TRY	10,507,280	profit
Agriculture	TRY	107,094	profit
Engineering	TRY	3,903,098	loss
Health	TRY	7,814,605	loss
Life	TRY	1,924,474	profit

The company closed the year with a total technical profit of TRY 26,310,259.

There are several reasons for such a relatively high technical profit last year. The first has to do with the acquisition of Destek Re which contributed a positive amount of TRY 8,899,504 due to the release of its reserves.

The second factor was the TRY 8,304,216 which was booked as a provision for unearned premiums carried forward. This item was the result of inflation adjustment of the accounts of the company in accordance with the International Financial Reporting Standards (IFRS) required by the Undersecretariat of Treasury instructions 28369 dated 13 May 2005.

Finally, pursuant to the Undersecretariat of Treasury's “Communiqué concerning the Insurance Business Chart of Accounts and Explanatory Notes” published in issues 25686 dated 30 December 2004 and 25939 dated 17 September 2005 of the Official Gazette, net amount of TRY 9,376,027 of the company's financial income and expenses corresponding to its Life and Non-Life technical operations was transferred to the technical income, bringing the total technical operating profit in 2005 to TRY 26,310,259.

In 2005, the company produced a total premium of TRY 724,055,635, which corresponds to a year-on increase on the order of 26% that is well above the overall rise experienced in the market.

Technical Profitability Ratios (%)

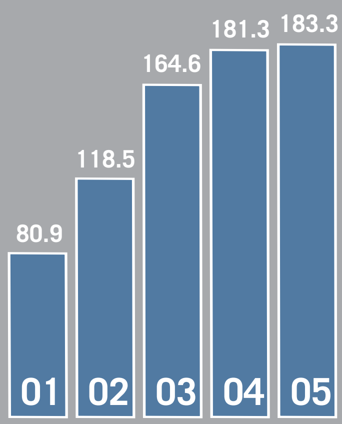
	2001	2002	2003	2004	2005
Loss Ratio (Gross)	91	66	68	70	68
Loss Ratio (Net)	78	67	73	74	73
Expense Ratio	23	24	26	23	22
Combined Ratio	114	90	94	93	90

Solvency Margin (TRY mn)

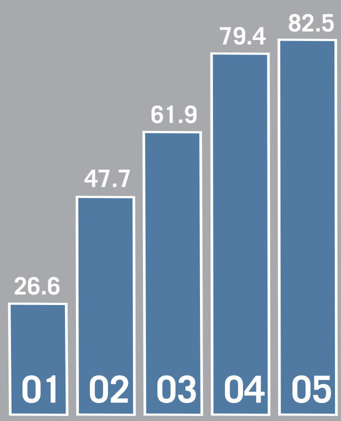
	2001	2002	2003	2004	2005
Required Solvency Margin	32.5	45.9	74.0	86.1	114.0
Shareholders' Equity	52.7	92.7	118.7	183.2	465.7
Surplus	20.2	46.8	44.7	97.1	351.7

Fire Insurance

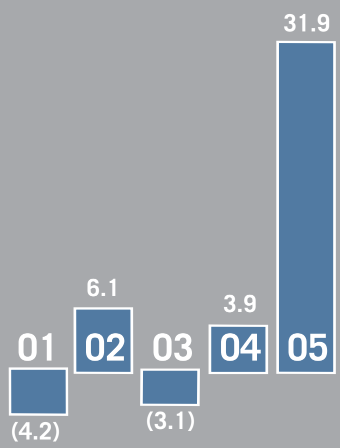
Premium Income
(TRY mn)



Losses Paid
(TRY mn)



Technical Profit/Loss
(TRY mn)



Market's premium production in the Fire branch amounted to about TRY 1,136 million in 2005, which corresponds to about a 6% increase compared with 2004. Fire premiums accounted for a 14% share of total premium production (including Life) in 2005, which is one point down from the 2004 figure of 15%. While Fire policies generated 19% of Non-Life premiums in 2004, this ratio was down to 17% in 2005.

Millî Re's Fire branch premiums in 2005 amounted to TRY 183,265,030, which was composed of company's acceptances on treaty basis and from facultative acceptances.

According to statistics published by the Association of the Insurance and Reinsurance Companies of Turkey, the rise in Fire branch premium production lagged behind that in other Non-Life branches. The main reasons given for this under-performance are a strong Turkish Lira that even appreciated against other currencies, low inflation and heavy price competition in Fire branch.

The appreciation in the Turkish Lira and low inflation of course apply equally to all branches. Application of free tariff in the Fire branch has put companies in the habit of ruthlessly cutting the rates, seemingly unconcerned about anything other than increasing their premium production at whatever cost. Indeed lately we have even been witness to promotional campaigns on the part of insurers aimed at gaining new customers.

A noteworthy fact is that despite this heavy competition, companies hardly manage to fulfill the minimum rate clause that some reinsurers have been imposing to be incorporated in their treaties.

Large losses as a result of natural disasters occurring worldwide in late 2004 and during 2005 did not have a significant impact on 2006 catastrophic programs however the minimum rates under the proportional treaties were somewhat increased. It was to be observed however that not even this was sufficient to discourage insurance companies from price-cutting.


Profitability Ratios in the Fire Branch (%)

	2001	2002	2003	2004	2005
Loss Ratio (Gross)	62	50	43	47	41
Loss Ratio (Net)	44	51	47	53	49
Expense Ratio	25	25	25	23	23
Combined Ratio	87	75	68	70	64

As of 31 December 2005, the total number of policies issued by the Turkish insurance industry was 27,953,070, of which 80% were Non-Life and 20% were Life. In Fire branch, there were a total of 1,788,648 policies: 1,061,669 civil risks, 624,465 commercial risks, 100,807 industrial risks and 1,707 loss of profits risks. Fire policies make up a 6% share of all policies and 8% of Non-Life policies.

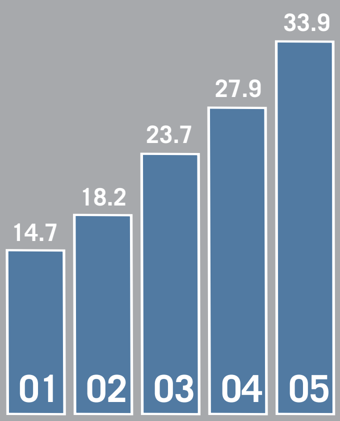
The mere 6.5% year-on rise in Fire premium production in 2005 should also be considered in light of the rather astonishing 71% increase that it experienced in 2001. The rapid decline in premium production in this branch has been quite evident over the last five years and it is reflected in Millî Re's portfolio as well: where the company's Fire premium production was equal to 18% of the market's Fire premium in recent years, that percentage slipped to 16% in 2005.

The absence of any major losses in this branch in 2005 kept its loss ratio at a satisfactory level.

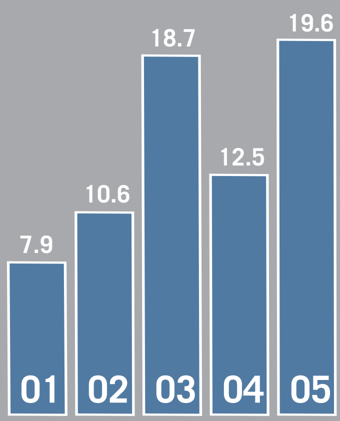
In addition to this positive trend in the loss ratio, other factors that were detailed in the section presenting Millî Re's technical results also contributed to the TRY 31,969,623 profit in its Fire net retained account: the gains from the provision for unearned premiums resulting from the inflation adjustment, the release of Destek Re's reserves, the change in the calculation of the contingency fund for earthquake and the transfer of a proportion of the financial income and expenses into technical accounts according to the Undersecretariat of Treasury's Communiqué.

Marine Insurance

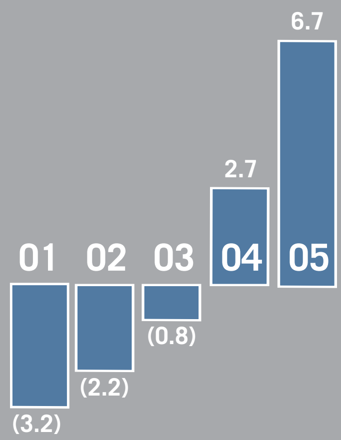
Premium Income
(TRY mn)



Losses Paid
(TRY mn)



Technical Profit/Loss
(TRY mn)



There were no noteworthy changes or developments in the Marine branch in 2005.

There were 26 companies active in the Marine branch in the Turkish insurance industry in 2005. Total premium production, which amounted to TRY 268.6 million in 2004 and rose 33% that year, was up only 8% in 2005 and reached TRY 290 million. The main reasons given for this very modest rise in premium production are a strong Turkish Lira that even appreciated against other currencies and low inflation.

The share of the Marine branch in total premium production slipped 5% to 4% in 2005.

The following is a breakdown of the number of Marine policies issued by type of risk.

Cargo	1,188,673	98.95%
Specie	3,013	0.25%
Hull	9,583	0.80%
Total	**1,201,269**	**100.00%**

Although relatively few in number, hull policies contribute a disproportionately high percentage of premium production in this branch whereas the large number of cargo policies do not generate premiums as much as they could due to heavy competition among insurers.

As may be seen, nearly all the policies written in the Marine branch are for Cargo insurance and the great majority of these are for the transport of import/export cargoes. The lack of insurance awareness and understanding are particularly evident in this branch as the number of the Cargo policies issued for the domestic transportation by rail and road are very few.

Another factor that hinders increases in policy and premium in cargo insurance despite the strong rises in Turkey's imports and exports in recent years is the stipulation by counterparty importers and exporters that insurance coverage be obtained in their own country. This causes a significant loss of business for the Turkish insurance industry.

Profitability Ratios in the Marine Branch (%)

	2001	2002	2003	2004	2005
Loss Ratio (Gross)	97	87	75	72	44
Loss Ratio (Net)	99	86	70	50	51
Expense Ratio	28	29	30	30	28
Combined Ratio	125	116	105	102	72

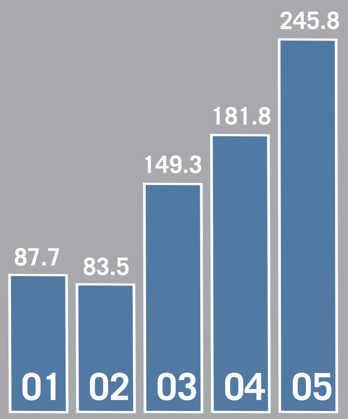
Millî Re produced a premium of TRY 33,936,737 in Marine branch in 2005. The company's premium production in this branch in 2001-2004 was equal to 10-13% of the market's Marine premium and in 2005 this percentage was again 12%. This is because Millî Re's production in this branch was higher than the market overall.

Although losses paid in 2005 were up 57% year-on, the loss ratio in this branch was less than what it had been the year before. As noted above, the main reasons for this were the gains from the provision for unearned premiums resulting from inflation-adjusted accounting and the release of Destek Re's reserves when it stopped writing business after the merger with Millî Re.

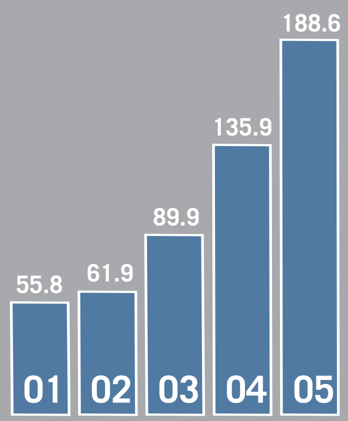
Similarly the main reasons for the rather higher level of profit in this branch in 2005 were the low gross loss ratio (for the reasons given above) as well as the transfer of a proportion of the financial income and expenses into technical accounts according to the Undersecretariat of Treasury's Communiqué.

Accident Insurance

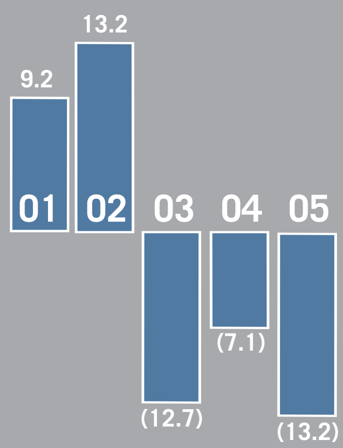
Premium Income
(TRY mn)



Losses Paid
(TRY mn)



Technical Profit/Loss
(TRY mn)



Approximately 41% (worth TRY 2,671 million) of the TRY 6,574 million market Non-Life premium in 2005 was generated in Accident branch (including Motor Own Damage and Personal Accident business). The year-on rise in premium growth in this branch was 23%.

As bank loans are available at very low interest rates, there was a strong increase in new car purchases in 2005 and at the same time a huge decline in the value and sale of second-hand vehicles. The continuous heavy competition in terms of rates in Motor Own Damage business grew even more intense, a situation that was worsened by rises in spare parts and labor costs and there was a significant increase in loss ratios resulting technical losses due to inadequate premiums charged.

Theft and Plate-Glass coverages were provided under Fire Package policies at a very low price in 2005 with the result that the loss ratios in these categories continued to rise.

There was some noteworthy development in non-motor TPL insurance in 2005 that was nourished by progress in Turkey's EU accession negotiations and by an increasing awareness of the need for liability coverage. Fierce competition among providers however together with the requirement (introduced at the beginning of 2005) to set aside provisions for incurred but not reported (IBNR) losses had a negative impact on the technical profitability in liability business.

Profitability Ratios in the Accident Branch (%)

	2001	2002	2003	2004	2005
Loss Ratio (Gross)	76	71	86	84	88
Loss Ratio (Net)	76	71	87	85	89
Expense Ratio	21	22	23	21	19
Combined Ratio	97	93	109	105	107

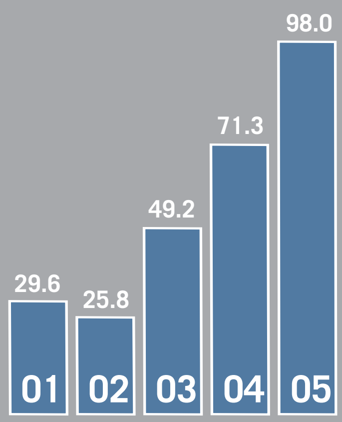
General conditions for the two new compulsory insurances were introduced in 2005: “Compulsory Certificate Liability” insurance on January 27 and “Private Security Service Liability” insurance on February 26. Another important development last year was a much greater demand for higher limits and increases in liability policies. In view of this, it is very likely that there will be a rise in this branch's premium production in the years ahead as well.

Millî Re produced a premium of TRY 245,789,139 in Accident branch in 2005. The company's premium production in this branch in 2001-2004 was equal to 7-10% of the market's Accident premium in that period and in 2005 this percentage was around 9%. Millî Re's production in this branch was up 35% year-on, a growth rate that was above the market average.

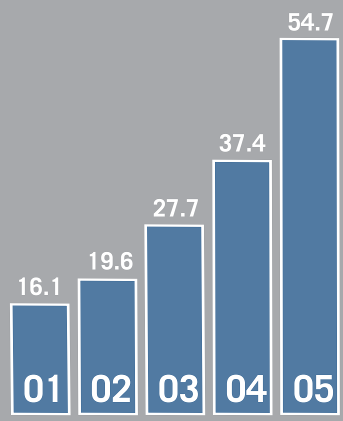
The severe competition and rise in the cost of losses in Motor Own Damage insurance had an impact on Millî Re as well. The year-on rise in paid losses in 2005 was 39% while the increase in the outstanding losses was 55%. For these reasons, the company's Accident branch accounts showed a net loss of TRY 13,207,798.

Motor Third-Party Liability (Traffic) Insurance

Premium Income
(TRY mn)



Losses Paid
(TRY mn)



Technical Profit/Loss
(TRY mn)

Motor Third-Party Liability (Traffic) insurance was first made compulsory in Turkey by law in 1953. In 1983, a new Highway Traffic Law was introduced where many of the provisions governing the compulsory nature of TPL insurance were revised to bring them up to date.

Although it is a legally compulsory form of insurance, in practice it is a fact that there are far too many uninsured and/or unregistered vehicles on the road and many problems are encountered due to this. To deal with or at least mitigate these problems, a regulation for a “Traffic Insurance Information Center” was published on 16 March 2003.

Under these regulations, a Traffic Insurance Information Center (whose Turkish acronym is TRAMER) was set up within the Association of the Insurance and Reinsurance Companies of Turkey. All insurance companies that are licensed in the traffic branch are automatically members of this center.

TRAMER's objectives are to achieve uniformity of practice in traffic insurance, prevent insurance fraud, improve public confidence in the insurance system, identify those who operate uninsured vehicles and formulate a healthy pricing mechanism. These objectives are achieved by providing pooled information of traffic insurance policies to related parties.

Thanks to the uniformity of practice provided by TRAMER in motor TPL insurance which led to cooperation among the players, there have been significant increases both in the number of insureds and in premium production in this branch. One tangible outcome of this was the positive trend in loss ratio in 2005.

Profitability Ratios in the Motor TPL Insurance Branch (%)

	2001	2002	2003	2004	2005
Loss Ratio (Gross)	81	78	81	75	67
Loss Ratio (Net)	81	79	81	73	67
Expense Ratio	20	14	29	24	25
Combined Ratio	101	92	110	99	92

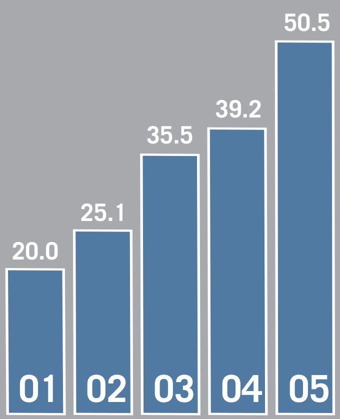
The compulsory Highway Transport Liability insurance that was introduced in 2004 has not achieved the level of development hoped for due to problems that are being encountered in the carrier licenses issued by the Ministry concerned. In 2005 the Undersecretariat of Treasury raised the coverage limits in all forms of compulsory liability insurance in the Accident branch. Premiums for policies other than Motor TPL are still subject to free market rates.

Total industry premium production in motor TPL insurance in 2005 amounted to TRY 1,281 million, which corresponds to a year-on rise of about 22%. Premiums generated by this branch represent 16% share in the total premium production.

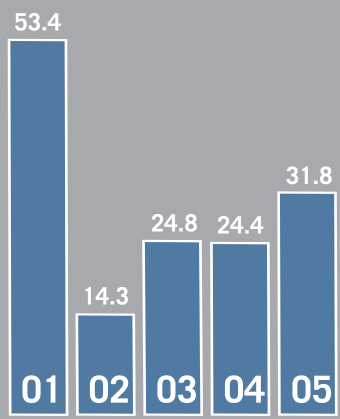
Millî Re's premium income is TRY 98,020,400 in Motor TPL in 2005, which corresponds to a year-on rise of 37% and represents an 8% share of the total market premium production in this branch. The company's substantially higher profitability in this branch in 2005 is due primarily however to the gains from the provision for unearned premiums resulting from the inflation adjustment accounting, the release of Destek Re's reserves after it was acquired by Millî Re and ceased to write business and the transfer of a proportion of the financial income and expenses into technical accounts according to the Undersecretariat of Treasury's Communiqué.

Engineering Insurance

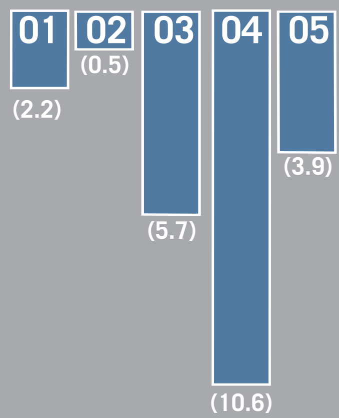
Premium Income
(TRY mn)



Losses Paid
(TRY mn)



Technical Profit/Loss
(TRY mn)



Total premium production in the Engineering branch in 2005 was TRY 322 million, about a 17% year-on increase. The percentage of Engineering business is slightly over 4% share of total Non-Life premium. Growth in this branch has been nourished by insurance taken out on mass housing construction project contracts awarded by the Housing Development Administration. Paralleling the downward trend in bank lending interest rates and lower investment costs, it is expected that investments in housing will continue and that this will continue to increase premium production in the Engineering branch.

The heavy price competition among companies in engineering insurance was evident again in 2005. As construction and erection insurance policies are long-termed, the negative consequences of price-cutting in this branch will not make themselves felt until several years have passed. Heavy price competition in Machinery Breakdown insurance, particularly experienced in construction machinery and power plants, has reduced technical profitability in this branch.

Profitability Ratios in the Engineering Branch (%)

	2001	2002	2003	2004	2005
Loss Ratio (Gross)	308	77	79	77	66
Loss Ratio (Net)	236	63	95	94	70
Expense Ratio	27	33	34	33	33
Combined Ratio	335	110	113	110	99

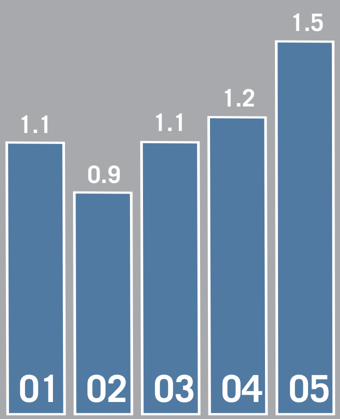
Millî Re wrote a premium of TRY 50,453,800 in Engineering branch in 2005. The company's premium was equal to 13-16% of the market's premium production in this branch in 2001-2004 and in 2005 this percentage was 16% as well. Millî Re's production in this branch was up 29% year-on, a growth rate that was above the market average.

The year-on rise in losses in this branch was also about 30%. Being the nature of this branch, the insurer may be exposed to heavy losses any time.

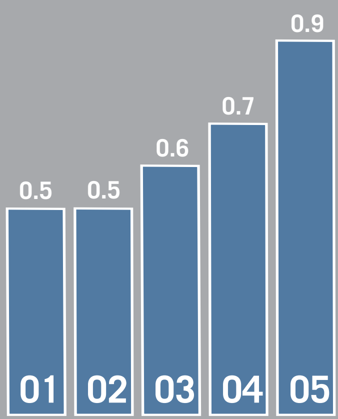
In 2004 Millî Re ceded 31% of its premiums in this branch to reinsurers; 25% in 2005, meaning that the company's retention was up six points. Despite this increase in the retention and a negligible reduction in the loss ratio, the accounts in this branch yielded negative results, particularly due to the deterioration in Machinery Breakdown business.

Agricultural Insurance

Premium Income
(TRY mn)



Losses Paid
(TRY mn)



Technical Profit/Loss
(TRY mn)

Total premium production in the Agricultural branch in 2005 was TRY 48 million, about a 65% year-on increase. This growth was largely nourished by increased sales of feedlot and stud livestock thanks to cheap credit made available to producers by the Ministry of Agriculture and Rural Affairs.

Another factor supporting the rise was increased coverage purchased by crop producers (particularly hail coverage including frost for vineyards) in 2005 in response to serious losses that farmers sustained due to hail and frost the year before.

A law specifically governing Agricultural insurance that had been impending for many years finally went into effect on June 14, 2005. One of the provisions of this law is the government support for farmers' insurance premiums. An Agricultural Insurance Pool has been created and a company, TARSİM, has been set up to manage the pool on behalf of the Undersecretariat of Treasury. Once this system gets under way, there is likely to be a strong increase in premium production in this branch in the years ahead.

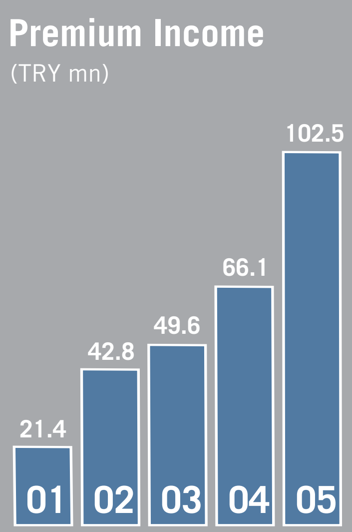
Profitability Ratios in the Agricultural Branch (%)

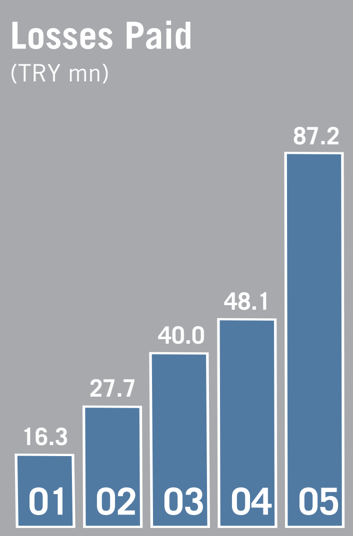
	2001	2002	2003	2004	2005
Loss Ratio (Gross)	55	47	60	71	60
Loss Ratio (Net)	55	54	68	74	59
Expense Ratio	33	23	20	20	19
Combined Ratio	88	70	80	91	79

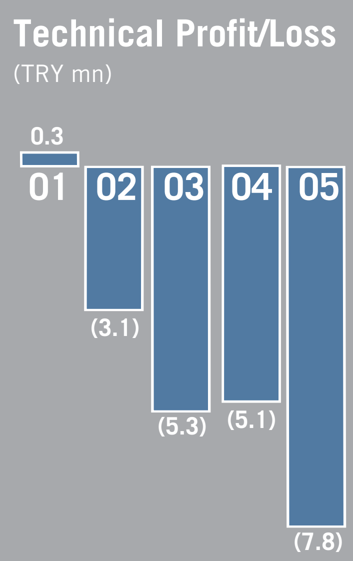
Millî Re wrote a premium of TRY 1,515,476 in Agricultural insurance in 2005 representing an increase of 30% year-on which is much below the market average. The main reason for this is that the two insurers that generate about 71% of the premium production in this branch cede the great bulk of their business to reinsurers abroad.

The rise in Millî Re's paid losses in this branch was only about half of the rise in its premiums and the same was true in the case of its provision for outstanding losses. This had a favorable impact on the company's loss ratio in Agricultural insurance, which showed an overall profit in 2005.

Health Insurance







The total number of policyholders in the Health branch in 2005 was 1,110,905 on which a premium of TRY 798 million was generated. The year-on rise in premium production was 17%.

For several years now, the cost of health services has been rising faster than the posted rate of inflation. In 2005 the prices of general health services rose 8.7% while the rise in physicians' fees was 10%.

The most important developments in the health branch last year are summarized below:

• The Undersecretariat of Treasury changed the name of the branch in Turkish from Hastalık Sigortası ("Sickness Insurance") to Sağlık Sigortası ("Health Insurance").
• The VAT rate on health-related expenditures was lowered from 18% to 8% as of 1 January 2005.
• In March, "terrorist acts and acts of sabotage as defined in the Antiterrorism Act (Law numbered 3713) and interventionary action taken by authorities to prevent these or lessen their effects" were added to the "Exclusion List" of Health insurance general conditions.
• Work continued on drafts of a law governing private Health insurance and of another law governing social security and general Health insurance.
• A draft of a set of general conditions for Health insurance for travelers prepared by the Undersecretariat of Treasury was sent to Association of the Insurance and Reinsurance Companies of Turkey for its opinions. It is expected that the conditions will go into effect during 2006.
• A more detailed chapter on Health insurance was incorporated in the draft of new commercial code and circulated it for opinions.
• In October the Undersecretariat of Treasury announced that premium refunds in case of the termination of a Health insurance policy, must be calculated on a daily pro-rata basis rather than short-term basis.

Profitability Ratios in the Health Branch (%)

	2001	2002	2003	2004	2005
Loss Ratio (Gross)	84	84	93	92	92
Loss Ratio (Net)	82	83	92	91	92
Expense Ratio	19	25	21	18	18
Combined Ratio	103	109	114	110	110

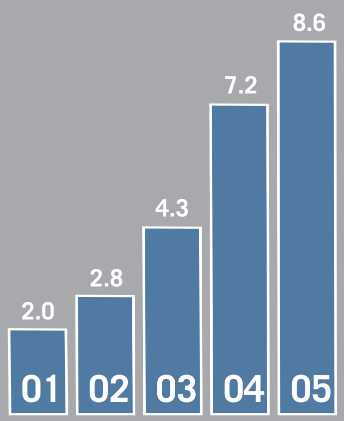
Millî Re's premium production in the Health branch was equal to 8-10% of the market premium in 2001-2004; in 2005 this percentage was 13%. Millî Re's production in this branch amounted to TRY 102,501,099 in 2005 and was up about 55% year-on, a growth rate that was very much above the sector average.

The rise in losses paid in 2005 was also significantly greater than what had been experienced in recent years. This is attributed mainly to the observed rise in the cost of health services, which was greater than the posted rate of inflation last year.

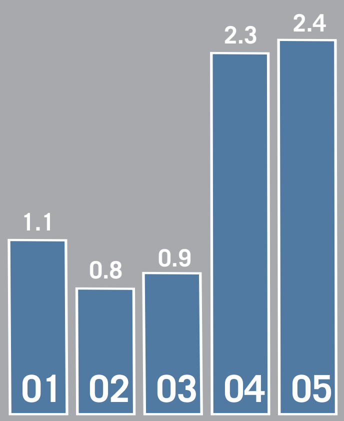
In addition to higher payments however, the TRY 8,482,177 difference between retained and released provision for unearned premiums resulting from the 55% rise in premium production also was distinctive in the Health branch generally posting a loss in 2005.

Life Insurance

Premium Income
(TRY mn)



Losses Paid
(TRY mn)



Technical Profit/Loss
(TRY mn)

The number of Life insurance policyholders in 2005 was 5,640,967 and total premium production was TRY 1,242 million, which corresponds to about a 1% increase compared with 2004. Since the posted rate of consumer price inflation last year was 7.72%, this represents a real drop in premium production in the branch.

Several factors contributed to this decline, the most important being the launching of Turkey's Private Pension System which led the Life insurance companies' attentions on Private Pension products at the expense of Life insurance policies. Moreover, holders of endowment Life insurance policies had the option of converting them into private pension contracts and a significant number of people elected to do so.

With the fall of inflation rate and the respective decrease in interest rates, there has been a significant increase both in the number and the volume of bank lending to consumers on multi-year terms. With the increase in long-term lending to finance home purchases, it is expected that this trend will remain strong for some years to come. It is the practice of most banks in Turkey to require a Life insurance policy on the borrower that is equal to the value of the loan. This particular form of “bancassurance” is getting more important in the sale of long-term risk-based Life insurance policies. Since these policies are entirely risk-based, they become the subject of reinsurance after a certain threshold is passed therefore it is expected to increase Millî Re's premium production in the Life branch in the future.



Profitability Ratios in the Life Branch (%)

	2001	2002	2003	2004	2005
Loss Ratio (Gross)	55	32	24	37	33
Loss Ratio (Net)	52	35	25	39	36
Expense Ratio	50	45	48	42	36
Combined Ratio	105	77	72	79	69

Millî Re's premium production in Life branch was equal to 0.4-0.6% of the market's premium in 2001-2004; in 2005 this percentage was around 0.7%. Millî Re's production in this branch amounted to TRY 8,573,951 in 2005 and was up about 20% year-on, a growth rate that was above the market average.

TRY 2,434,202 was paid out as compensation in this branch in 2005. This corresponds to a year-on rise of about 5%, which is much below the rates of increase experienced in recent years. This low volume of compensation kept the branch's loss ratio low as well.

Millî Re made a profit of TRY 1,924,474 in the Life branch in 2005. The main reasons for this were the rise in premium income, the low loss ratio and the transfer of a proportion of the financial income and expenses into technical accounts according to the Undersecretariat of Treasury's Communiqué.

Technical Results

(TRY)	2004	2005	Change (%)
I- Technical Income	**903,753,011.62**	**1,204,177,461.25**	**33.24**
A) Premiums	575,963,763.85	724,055,635.71	25.71
B) Commissions	12,790,167.89	17,855,803.61	39.61
C) Retrocessionaires’ Share in Losses Paid	37,421,752.95	32,486,981.08	(13.19)
D) Technical Provisions Brought Forward (Net)	229,213,511.53	357,722,884.89	56.07
a) Provision for Unearned Premiums	136,458,221.03	204,373,097.32	49.77
b) Provision for Outstanding Losses	91,785,590.57	152,422,821.89	66.06
c) Mathematical Reserves (Life)	798,906.90	701,784.86	(12.16)
d) Provision for Outstanding Indemnities (Life)	170,793.03	225,180.82	31.84
E) Retrocessionaires’ Share in Technical Provisions	44,103,089.94	50,781,863.87	15.14
a) Provision for Unearned Premiums	15,990,799.81	18,382,566.01	14.96
b) Provision for Outstanding Losses	28,112,290.13	32,399,297.86	15.25
F) Other Income	4,260,725.46	2,724,539.57	(36.05)
G) Investment Income Transferred from Non-Technical Acc.	0.00	17,837,416.42	+
H) Investment Income (Life)	0.00	712,336.10	+
II- Technical Expenses	**917,597,388.76**	**1,177,867,202.10**	**28.36**
A) Premiums Ceded to Retrocessionaires	83,743,913.60	90,252,002.82	7.77
B) Commissions Paid	129,034,530.71	160,659,201.59	24.51
C) Losses Paid	340,810,008.84	467,695,689.30	37.23
D) Technical Provisions	362,106,088.57	447,895,771.21	23.69
a) Provision for Unearned Premiums	187,105,913.96	238,172,204.59	27.29
b) Provision for Outstanding Losses	155,007,354.12	203,714,502.41	31.42
c) Contingency Fund for Earthquake	19,068,636.31	4,781,971.40	(74.92)
d) Mathematical Reserves (Life)	701,784.86	759,494.57	8.22
e) Provision for Outstanding Indemnities (Life)	222,399.32	467,598.24	110.25
E) Other Expenses	1,902,847.04	2,190,811.70	15.13
F) Investment Expenses Transferred to Non-Life Technical Acc.	0.00	8,823,720.94	+
G) Operating Expenses (Life)	0.00	350,004.54	+
III- Technical Profit/Loss (I-II)	**(13,844,377.14)**	**26,310,259.15**	**+**

Fire Branch Technical Results

(TRY)	2004	2005	Change (%)
I- Technical Income	**287,038,944.22**	**318,674,956.25**	**11.02**
A) Premiums	181,316,152.76	183,265,030.16	1.07
B) Commissions	6,204,003.87	7,673,185.09	23.68
C) Retrocessionaires' Share in Losses Paid	23,645,698.73	12,500,185.64	(47.14)
D) Technical Provisions Brought Forward (Net)	52,373,341.53	85,156,150.96	62.59
a) Provision for Unearned Premiums	23,272,733.97	33,777,196.88	45.14
b) Provision for Outstanding Losses	29,100,607.56	51,378,954.08	76.56
E) Retrocessionaires' Share in Technical Provisions	21,684,981.10	23,585,503.99	8.76
a) Provision for Unearned Premiums	7,598,283.90	7,447,232.88	(1.99)
b) Provision for Outstanding Losses	14,086,697.20	16,138,271.11	14.56
F) Other Income	1,814,766.23	808,332.05	(55.46)
G) Investment Income Transferred from Non-Technical Acc.	0.00	5,686,568.36	+
II- Technical Expenses	**283,075,105.71**	**286,705,333.08**	**1.28**
A) Premiums Ceded to Retrocessionaires	53,811,243.11	51,421,540.76	(4.44)
B) Commissions Paid	42,328,457.74	44,871,058.87	6.01
C) Losses Paid	79,429,673.53	82,517,482.70	3.89
D) Technical Provisions	106,172,904.32	103,472,325.73	(2.54)
a) Provision for Unearned Premiums	33,932,562.64	32,955,325.85	(2.88)
b) Provision for Outstanding Losses	53,541,077.85	65,865,196.30	23.02
c) Contingency Fund for Earthquake	18,699,263.83	4,651,803.58	(75.12)
E) Other Expenses	1,332,827.01	1,609,922.78	20.79
F) Investment Expenses Transferred to Non-Life Technical Acc.	0.00	2,813,002.24	+
III- Technical Profit/Loss (I-II)	**3,963,838.51**	**31,969,623.17**	**706.53**

Marine Branch Technical Results

(TRY)	2004	2005	Change (%)
I- Technical Income	**55,204,886.25**	**70,140,146.13**	**27.05**
A) Premiums	27,913,101.19	33,936,737.65	21.58
B) Commissions	1,285,435.75	1,678,545.93	30.58
C) Retrocessionaires’ Share in Losses Paid	3,066,635.09	3,558,800.18	16.05
D) Technical Provisions Brought Forward (Net)	13,748,800.56	22,970,018.76	67.07
a) Provision for Unearned Premiums	4,568,237.99	8,792,439.31	92.47
b) Provision for Outstanding Losses	9,180,562.57	14,177,579.45	54.43
E) Retrocessionaires’ Share in Technical Provisions	9,189,279.60	7,149,455.75	(22.20)
a) Provision for Unearned Premiums	1,203,770.80	948,660.14	(21.19)
b) Provision for Outstanding Losses	7,985,508.80	6,200,795.61	(22.35)
F) Other Income	1,634.06	(31,013.05)	-
G) Investment Income Transferred from Non-Technical Acc.	0.00	877,600.91	+
II- Technical Expenses	**52,536,914.44**	**63,412,857.10**	**20.70**
A) Premiums Ceded to Retrocessionaires	5,895,639.20	7,304,348.27	23.89
B) Commissions Paid	8,845,597.96	10,257,881.73	15.97
C) Losses Paid	12,463,484.43	19,589,676.73	57.18
D) Technical Provisions	25,319,010.91	25,794,726.53	1.88
a) Provision for Unearned Premiums	7,103,249.36	5,795,144.77	(18.42)
b) Provision for Outstanding Losses	18,215,761.55	19,999,581.76	9.79
E) Other Expenses	13,181.94	32,096.76	143.49
F) Investment Expenses Transferred to Non-Life Technical Acc.	0.00	434,127.08	+
III- Technical Profit/Loss (I-II)	**2,667,971.81**	**6,727,289.03**	**152.15**

Accident Branch Technical Results

(TRY)	2004	2005	Change (%)
I- Technical Income	**279,333,694.25**	**392,912,493.55**	**40.66**
A) Premiums	181,826,396.61	245,789,139.05	35.18
B) Commissions	2,255,180.32	3,802,797.16	68.62
C) Retrocessionaires' Share in Losses Paid	3,529,243.86	6,881,392.49	94.98
D) Technical Provisions Brought Forward (Net)	85,410,528.81	121,659,565.55	42.44
a) Provision for Unearned Premiums	59,719,490.77	83,002,917.73	38.99
b) Provision for Outstanding Losses	25,691,038.04	38,656,647.82	50.47
E) Retrocessionaires' Share in Technical Provisions	4,784,036.29	7,911,504.08	65.37
a) Provision for Unearned Premiums	2,872,058.34	4,525,518.53	57.57
b) Provision for Outstanding Losses	1,911,977.95	3,385,985.55	77.09
F) Other Income	1,528,308.36	1,165,473.21	(23.74)
G) Investment Income Transferred from Non-Technical Acc.	0.00	5,702,622.01	+
II- Technical Expenses	**286,424,106.35**	**406,120,291.87**	**41.79**
A) Premiums Ceded to Retrocessionaires	7,280,676.43	12,173,174.30	67.20
B) Commissions Paid	35,282,990.75	44,321,473.48	25.62
C) Losses Paid	135,906,012.39	188,561,119.64	38.74
D) Technical Provisions	107,715,731.25	158,116,300.67	46.79
a) Provision for Unearned Premiums	71,647,164.70	102,239,072.29	42.70
b) Provision for Outstanding Losses	36,068,566.55	55,877,228.38	54.92
E) Other Expenses	238,695.53	127,280.19	(46.68)
F) Investment Expenses Transferred to Non-Life Technical Acc.	0.00	2,820,943.59	+
III- Technical Profit/Loss (I-II)	**(7,090,412.10)**	**(13,207,798.32)**	**86.28**

Motor TPL (Traffic) Branch Technical Results

(TRY)	2004	2005	Change (%)
I- Technical Income	**108,716,882.22**	**161,883,867.43**	**48.90**
A) Premiums	71,339,102.78	98,020,400.79	37.40
B) Commissions	205,926.62	356,908.80	73.32
C) Retrocessionaires' Share in Losses Paid	1,133,667.99	763,176.91	(32.68)
D) Technical Provisions Brought Forward (Net)	34,092,750.75	58,183,811.54	70.66
a) Provision for Unearned Premiums	19,814,359.35	34,646,627.85	74.86
b) Provision for Outstanding Losses	14,278,391.40	23,537,183.69	64.84
E) Retrocessionaires' Share in Technical Provisions	1,215,733.40	1,614,101.21	32.77
a) Provision for Unearned Premiums	461,420.26	726,580.75	57.47
b) Provision for Outstanding Losses	754,313.14	887,520.46	17.66
F) Other Income	729,700.68	710,439.89	(2.64)
G) Investment Income Transferred from Non-Technical Acc.	0.00	2,235,028.29	+
II- Technical Expenses	**107,236,586.96**	**151,376,586.79**	**41.16**
A) Premiums Ceded to Retrocessionaires	1,018,014.11	1,664,840.59	63.54
B) Commissions Paid	15,200,073.53	22,105,160.56	45.43
C) Losses Paid	37,400,236.72	54,697,884.71	46.25
D) Technical Provisions	53,421,272.06	71,412,554.51	33.68
a) Provision for Unearned Premiums	31,112,663.93	39,600,248.07	27.28
b) Provision for Outstanding Losses	22,308,608.13	31,812,306.44	42.60
E) Other Expenses	196,990.54	390,534.19	98.25
F) Investment Expenses Transferred to Non-Life Technical Acc.	0.00	1,105,612.23	+
III- Technical Profit/Loss (I-II)	**1,480,295.26**	**10,507,280.64**	**609.81**

Engineering Branch Technical Results

(TRY)	2004	2005	Change (%)
I- Technical Income	**69,885,930.11**	**99,093,676.00**	**41.79**
A) Premiums	39,151,461.77	50,453,800.19	28.87
B) Commissions	2,437,709.30	3,438,514.78	41.06
C) Retrocessionaires' Share in Losses Paid	3,596,702.06	6,082,756.19	69.12
D) Technical Provisions Brought Forward (Net)	19,239,608.92	29,488,314.02	53.27
a) Provision for Unearned Premiums	9,223,194.63	12,137,242.89	31.59
b) Provision for Outstanding Losses	10,016,414.29	17,351,071.13	73.23
E) Retrocessionaires' Share in Technical Provisions	5,439,975.50	8,330,148.24	53.13
a) Provision for Unearned Premiums	2,372,434.89	3,068,038.70	29.32
b) Provision for Outstanding Losses	3,067,540.61	5,262,109.54	71.54
F) Other Income	20,472.56	72,928.33	256.22
G) Investment Income Transferred from Non-Technical Acc.	0.00	1,227,214.25	+
II- Technical Expenses	**80,498,448.54**	**102,996,774.68**	**27.95**
A) Premiums Ceded to Retrocessionaires	12,129,874.40	12,769,016.79	5.27
B) Commissions Paid	14,166,162.58	18,882,437.33	33.29
C) Losses Paid	24,407,441.57	31,822,969.33	30.38
D) Technical Provisions	29,752,013.32	38,893,839.56	30.73
a) Provision for Unearned Premiums	12,118,650.51	16,380,904.99	35.17
b) Provision for Outstanding Losses	17,263,990.32	22,382,766.75	29.65
c) Contingency Fund for Earthquake	369,372.49	130,167.82	(64.76)
E) Other Expenses	42,956.67	21,439.67	(50.09)
F) Investment Expenses Transferred to Non-Life Technical Acc.	0.00	607,072.00	+
III- Technical Profit/Loss (I-II)	**(10,612,518.43)**	**(3,903,098.68)**	**(63.22)**

Agricultural Branch Technical Results

(TRY)	2004	2005	Change (%)
I- Technical Income	**1,959,937.34**	**2,550,014.84**	**30.11**
A) Premiums	1,165,963.97	1,515,476.60	29.98
B) Commissions	159,985.11	209,181.00	30.75
C) Retrocessionaires' Share in Losses Paid	238,618.58	385,201.76	61.43
D) Technical Provisions Brought Forward (Net)	229,009.19	230,081.24	0.47
a) Provision for Unearned Premiums	54,516.23	45,485.79	(16.56)
b) Provision for Outstanding Losses	174,492.96	184,595.45	5.79
E) Retrocessionaires' Share in Technical Provisions	169,223.54	178,349.94	5.39
a) Provision for Unearned Premiums	29,498.56	26,889.35	(8.85)
b) Provision for Outstanding Losses	139,724.98	151,460.59	8.40
F) Other Income	(2,863.05)	(5,734.28)	100.29
G) Investment Income Transferred from Non-Technical Acc.	0.00	37,458.58	+
II- Technical Expenses	**2,009,631.95**	**2,442,920.50**	**21.56**
A) Premiums Ceded to Retrocessionaires	522,864.13	688,621.90	31.70
B) Commissions Paid	361,537.31	457,197.08	26.46
C) Losses Paid	735,550.84	862,147.10	17.21
D) Technical Provisions	373,492.72	411,610.01	10.21
a) Provision for Unearned Premiums	66,784.23	60,389.38	(9.58)
b) Provision for Outstanding Losses	306,708.49	351,220.63	14.51
E) Other Expenses	16,186.95	4,814.59	(70.26)
F) Investment Expenses Transferred to Non-Life Technical Acc.	0.00	18,529.82	+
III- Technical Profit/Loss (I-II)	**(49,694.61)**	**107,094.34**	**+**

Health Branch Technical Results

(TRY)	2004	2005	Change (%)
I- Technical Income	**92,208,493.10**	**146,765,782.45**	**59.17**
A) Premiums	66,078,053.22	102,501,099.75	55.12
B) Commissions	11,076.59	339,598.93	2,965.92
C) Retrocessionaires' Share in Losses Paid	2,089,750.20	2,171,067.91	3.89
D) Technical Provisions Brought Forward (Net)	22,386,393.33	37,697,748.31	68.40
a) Provision for Unearned Premiums	19,042,309.59	30,560,958.04	60.49
b) Provision for Outstanding Losses	3,344,083.74	7,136,790.27	113.42
E) Retrocessionaires' Share in Technical Provisions	1,478,601.95	1,986,097.99	34.32
a) Provision for Unearned Premiums	1,312,074.50	1,612,942.99	22.93
b) Provision for Outstanding Losses	166,527.45	373,155.00	124.08
F) Other Income	164,617.81	(754.46)	-
G) Investment Income Transferred from Non-Technical Acc.	0.00	2,070,924.02	+
II- Technical Expenses	**97,272,335.80**	**154,580,388.16**	**58.92**
A) Premiums Ceded to Retrocessionaires	2,310,509.60	3,344,679.51	44.76
B) Commissions Paid	9,818,941.26	16,526,913.21	68.32
C) Losses Paid	48,143,158.35	87,210,206.15	81.15
D) Technical Provisions	36,941,263.21	46,469,337.77	25.79
a) Provision for Unearned Premiums	29,638,622.00	39,043,135.62	31.73
b) Provision for Outstanding Losses	7,302,641.21	7,426,202.15	1.69
E) Other Expenses	58,463.38	4,817.54	(91.76)
F) Investment Expenses Transferred to Non-Life Technical Acc.	0.00	1,024,433.98	+
III- Technical Profit/Loss (I-II)	**(5,063,842.70)**	**(7,814,605.71)**	**54.32**

Life Branch Technical Results

(TRY)	2004	2005	Change (%)
I- Technical Income	**9,404,244.12**	**12,156,524.60**	**29.27**
A) Premiums	7,173,531.53	8,573,951.52	19.52
B) Commissions	230,850.33	357,071.92	54.68
C) Retrocessionaires' Share in Losses Paid	121,436.44	144,400.00	18.91
D) Technical Provisions Brought Forward (Net)	1,733,078.42	2,337,194.51	34.86
a) Provision for Unearned Premiums	763,378.49	1,410,228.83	84.74
b) Mathematical Reserves (Life)	798,906.90	701,784.86	(12.16)
c) Provision for Outstanding Indemnities (Life)	170,793.03	225,180.82	31.84
E) Retrocessionaires' Share in Technical Provisions	141,258.58	26,702.67	(81.10)
a) Provision for Unearned Premiums	141,258.58	26,702.67	(81.10)
F) Other Income	4,088.82	4,867.88	19.05
G) Investment Income (Life)	0.00	712,336.10	+
II- Technical Expenses	**8,544,259.00**	**10,232,049.92**	**19.75**
A) Premiums Ceded to Retrocessionaires	775,092.62	885,780.70	14.28
B) Commissions Paid	3,030,769.58	3,237,079.33	6.81
C) Losses Paid	2,324,451.00	2,434,202.94	4.72
D) Technical Provisions	2,410,400.76	3,325,076.43	37.95
a) Provision for Unearned Premiums	1,486,216.58	2,097,983.62	41.16
b) Mathematical Reserves (Life)	701,784.86	759,494.57	8.22
c) Provision for Outstanding Indemnities (Life)	222,399.32	467,598.24	110.25
E) Other Expenses	3,545.04	(94.02)	-
F) Operating Expenses (Life)	0.00	350,004.54	+
III- Technical Profit/Loss (I-II)	**859,985.12**	**1,924,474.68**	**123.78**

An Evaluation of the Company's Financial Results in 2005

Financial Results (TRY)	2004	2005	Change (%)
I- Financial Income	**95,549,545.43**	**82,665,716.46**	**(13.48)**
Interest Income	69,263,206.35	61,003,835.65	(11.92)
Profit Share Income	557,410.23	609,436.63	9.33
Sales Profits	413,727.18	3,395,370.61	720.68
Rental Income	6,604,255.97	7,059,465.24	6.89
Currency Translation Gains	14,378,583.24	6,341,022.84	(55.90)
Comp. Earthquake Ins. Management Fees	4,301,864.77	4,031,337.00	(6.29)
Other Income	30,497.69	225,248.49	638.58
II- Financial Expenses	**24,284,028.86**	**36,013,569.38**	**48.30**
Sales Losses	645,960.41	4,370,781.66	576.63
Currency Translation Losses	11,631,912.69	8,806,735.83	(24.29)
Impairment Provisions	0.00	4,459,476.75	+
Comp. Earthquake Ins. Management Expenses	31,498.10	47,859.92	51.95
Tax Provisions	11,735,105.58	18,249,285.56	55.51
Other Expenses	239,552.08	79,429.66	(66.84)
III- General Expenses	**45,846,359.05**	**36,041,280.99**	**(21.39)**
Personnel Expenses	13,628,696.28	7,297,951.47	(46.45)
Administrative Expenses	3,031,383.42	1,787,173.96	(41.04)
Taxes and Other Obligations	28,632,699.54	23,892,722.27	(16.55)
Amortisation Expenses	400,212.41	2,768,393.87	591.73
Provision for Employment Termination Benefits	153,367.40	295,039.42	92.37
IV- Financial Profit/Loss (I-II-III)	**25,419,157.52**	**10,610,866.09**	**(58.26)**

There were a number of regulatory changes that had a significant impact on the company's financial results in 2005.

A new uniform chart of accounts for the insurance industry went into effect as of 1 January 2005. Under this new chart of accounts, some part of insurers' income and expenses meeting certain criteria were transferred from their financial accounts to the technical accounts of the associated branches. In addition to this, all companies were required to evaluate and book all their assets and liabilities in accordance with the provisions of Capital Market Board (CMB) Communiqué XI: 25 concerning accounting standards in capital markets until such time as new regulations are introduced.

In addition to the above, the formalities of merging Destek Re with Millî Re were completed in May 2005 where all of Destek Re's assets and liabilities were transferred to Millî Re's balance sheet.

Due to the regulatory changes and to the merger, the company's financial results in 2005 appear to be substantially below what they were in 2004. As the application of accounting rules in 2005 were quite different from those applied in 2004, no straightforward comparison between the two years can be meaningful.

Main Financial Figures

(TRY)	2001	2002	2003	2004	2005
Assets					
Cash and Cash Equivalents	33,609,698.73	59,142,024.73	66,593,653.24	120,370,423.31	267,895,204.47
Securities	70,555,065.66	118,054,755.76	249,063,576.74	346,881,094.01	314,034,502.11
Affiliates and Subsidiaries	8,000.00	42,200.00	42,200.00	38,000.00	138,420,403.32
Fixed Assets	25,037,470.72	39,558,581.50	56,532,514.15	61,931,913.95	120,899,723.80
Doubtful Receivables (Net)	0.00	0.00	0.00	0.00	0.00
Total Assets	250,959,762.34	329,144,276.84	454,426,544.43	616,430,829.57	995,743,137.60
Liabilities					
Technical Provisions	151,835,354.29	200,467,316.31	299,307,295.94	386,685,062.20	488,780,518.08
Shareholders' Equity*	52,745,092.58	92,754,327.20	118,778,892.62	183,200,061.17	465,702,249.22
Income and Expenses Items					
Technical Income	444,058,573.59	528,379,099.05	705,568,273.26	903,753,011.62	1,204,177,461.25
Technical Expenses	443,404,071.21	509,475,682.59	737,605,754.81	917,597,388.77	1,177,867,202.10
Technical Profit/Loss	654,502.38	18,903,416.46	(32,037,481.55)	(13,844,377.14)	26,310,259.15
Financial Income	45,024,775.09	43,654,205.66	81,918,737.24	95,549,545.42	82,665,716.46
Financial Expenses	20,686,293.82	33,820,248.58	30,293,314.98	24,284,028.87	36,013,569.38
General Expenses	8,284,400.03	11,725,696.79	16,682,716.82	45,846,359.04	36,041,280.99
Financial Profit/Loss	16,054,081.24	(1,891,739.71)	34,942,705.44	25,419,157.51	10,610,866.09
Profit/Loss for the Period	16,708,583.62	17,011,676.75	2,905,223.89	11,574,780.37	36,921,125.24

* Including Profit for the Period

Financial Ratios

(%)	2001	2002	2003	2004	2005
Capital Adequacy Ratios					
Gross Premiums/Shareholders' Equity	488	342	402	314	155
Shareholders' Equity/Total Assets	21	28	26	30	47
Shareholders' Equity/Net Technical Provisions	35	46	40	47	95
Asset Quality and Liquidity Ratios					
Liquid Assets/Total Assets	42	54	69	76	58
Liquidity Ratio	62	96	121	137	136
Current Ratio	127	147	150	158	151
Receivables from Technical Operations/Total Assets	43	28	17	12	7
Operational Ratios					
Retention Ratio	85	84	86	85	88
Paid Claims/Paid Claims+Outstanding Claims	68	64	69	69	70
Profitability Ratios					
Loss Ratio (Gross)	91	66	68	70	68
Loss Ratio (Net)	78	67	73	74	73
Expense Ratio	23	24	26	23	22
Combined Ratio	114	90	94	93	90
Profit Before Tax/Gross Premiums	13	13	3	4	8
Gross Financial Profit/Gross Premiums	12	7	10	6	4
Technical Profit/Gross Premiums	0	6	(7)	(2)	4

Risk Management and Internal Audit

Risk Management

Volatilities in financial markets both in Turkey and abroad in recent years as well as catastrophic disasters have made effective risk management an issue of the utmost importance for the insurance industry worldwide.

Insurance by definition is a risk-focused business. It is therefore only natural that insurance and reinsurance companies should have risk management systems and processes that will enable them to more precisely identify and more closely monitor the risks to which they may be exposed. The objective of a risk management system is to allow risks that arise from a company's on and off-balance sheet activities to be effectively quantified so that appropriate measures may be taken. At meeting no.1060 of the Millî Reasürans Board of Directors on 28 December 2004, the company's Board of Directors decided to set up a separate Risk Management Unit which began performing its risk management functions as of 1 April 2005.

Risk management consists of the processes of identifying, defining, quantifying, controlling, monitoring and reporting risks as well as of formulating risk management policies and practices.

To ensure that risk management functions are organized effectively throughout the company, a Risk Committee was set up on 22 June 2005, consisting of six members and reporting directly to the Board. Its duties are to formulate the risk management strategies and policies that the company will follow, submit them to the Board of Directors for its approval, and monitor their compliance throughout the company. The Risk Committee meets at least once every six weeks. After approving the risk management report prepared by the Risk Management Unit in which all of the risks to which the company is exposed are analyzed it submits it to the board.

For the purpose of developing a common terminology on the subject of risk management in the company, a “Risk Catalogue” has been prepared in which the risks that the company may encounter are categorized, defined and exampled. This catalogue, which is intended to serve as the basis for all risk management activities throughout the company, went into use on 14 November 2005. For the purpose of spelling out risk quantification methods and set exposure limits for basic risks, a “Risk Management Guidebook” and a set of “Principles concerning the Implementation of Risk Limits” were also put into effect on 7 September 2005.

The basic risks to which Millî Re is exposed and the methods of their quantification are summarized below:

• Reputation risk and business environment risk are determined by means of surveys and interviews. Strategy risk is evaluated within the framework of “Principles concerning the Implementation of Risk Limits”.

• A scoring system for acceptable credit risks is formulated by the Risk Committee and approved by the Board of Directors.

• Self-assessments are the method used to quantify operational risks while market risk is quantified using the “value-at-risk” (VaR) method.

To check the validity of the results of the VaR model, historical simulation is performed daily while stress tests and scenario analyses are performed monthly.

Internal Audit

In order to be sure that a company's activities are being carried out productively and efficiently, it is crucially important in today's business environment to have genuinely effective internal audit mechanisms in place. At meeting no.1059 of the Millî Reasürans Board of Directors on 8 December 2004, the company's directors voted to set up a separate internal audit unit and on 14 March 2005 the Internal Audit Department began performing its internal audit functions.

Rather than adopt an approach that focuses on strict audit and error-finding, the Internal Audit Department's policy is to provide independent and objective verification and guidance with the aim of furthering the company's activities and adding value to them.

To ensure that its activities are conducted independently and objectively, the Internal Audit Department reports directly to the Board of Directors.

The Internal Audit Department is responsible for examining on location anything that may have an impact on any of the company's assets, accounts, records, documents, personnel or security. Its other responsibilities consist of determining whether or not company's management and personnel are successfully achieving the objectives given to them; asking management and personnel for explanations about issues that are being monitored, audited and controlled and querying them for their views and opinions; and warning other units of the company on issues needing attention when necessary.

The Internal Audit Department performs an on-location audit of each unit of the company at least once a year during which the unit is checked for compliance with the requirements of laws and regulations and of company policies; with work flow procedures; with limit, exercise of authority and security measures; and with regular record maintenance and order.

TO THE BOARD OF DIRECTORS,
MİLLİ REASÜRANS TÜRK ANONİM ŞİRKETİ
INDEPENDENT AUDITORS' REPORT FOR THE PERIOD 01.01.2005 - 31.12.2005

We have audited the accompanying balance sheet of Millî Reasürans Türk A.Ş. as of 31 December 2005, and the related statement of income for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the Law for Insurance Companies' Audit, numbered 7397. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, except for the matter set our in the below mentioned at first and second paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Millî Reasürans T.A.Ş. as of 31 December 2005 and the results for the year ended, in accordance with the Law for Insurance Companies' Audit, numbered 7397.

Although they do not affect our opinion, following points shall also be taken into consideration:

1. Since the facts stated at note 11 have become affective as of January 2005, the attached financial statements are not presented in comparative base.

2. The company has merged with Destek Reasürans A.Ş. by taking over all assets and liabilities.
The merger agreement has been officially registered on 20/04/2005 and published on 25/04/2005 at Trade Register Gazette.

M.G.I BAĞIMSIZ DENETİM VE DANIŞMANLIK A.Ş.

ERHAN ÖZDEMİR
Managing Partner
İstanbul 07 March 2006

Millî Reasürans Türk Anonim Şirketi
Income Statement 01.01.2005-31.12.2005 (TRY)

I- Technical Account	Note	Current Period
A- Non-Life Technical Income		**631,917,061.04**
1- Earned Premiums (Net of Reinsurance)		611,359,972.93
1.1- Written Premiums (Net of Reinsurance)		626,115,462.07
1.2- Change in Provision for Unearned Premiums (Net of Reinsurance) (+/-)		(14,755,489.14)
1.3- Change in Provision for Unexpired Risks (Net of Reinsurance) (+/-)		
2- Investment Income Transferred from Non-Technical Account	1	17,837,416.42
3- Other Technical Income (Net of Reinsurance)	2	2,719,671.69
B- Non-Life Technical Expenses (-)		**(607,531,276.57)**
1- Losses Incurred (Net of Reinsurance)		(451,811,287.94)
1.1- Losses Paid (Net of Reinsurance)		(432,918,905.28)
1.2- Change in Provision for Outstanding Losses (Net of Reinsurance) (+/-)		(18,892,382.66)
2- Change in Provision for Bonus and Reduction (Net of Reinsurance) (+/-)		
3- Change in Other Technical Provisions (Net of Reinsurance) (+/-)	3	(4,781,971.40)
4- Operating Expenses (-)	4	(150,938,017.23)
C- Balance on Non-Life Technical Account (A-B)		**24,385,784.47**
D- Life Technical Income		**7,744,322.68**
1- Earned Premiums (Net of Reinsurance)		7,027,118.70
1.1- Written Premiums (Net of Reinsurance)		7,688,170.82
1.2- Change in Provision for Unearned Premiums (Net of Reinsurance) (+/-)		(661,052.12)
1.3- Change in Provision for Unexpired Risks (Net of Reinsurance) (+/-)		
2- Investment Income		712,336.10
3- Unrealized Profits on Investments		
4- Other Technical Income (Net of Reinsurance)	5	4,867.88
E- Life Technical Expenses		**(5,819,848.00)**
1- Claims Incurred (Net of Reinsurance)		(2,532,220.36)
1.1- Claims Paid (Net of Reinsurance)		(2,289,802.94)
1.2- Change in Provision for Outstanding Indemnities (Net of Reinsurance) (+/-)		(242,417.42)
2- Change in Provision for Bonus and Reduction (Net of Reinsurance) (+/-)		
3- Change in Mathematical Reserves (Net of Reinsurance) (+/-)		(57,709.71)
4- Change in Provision for Investment Risk at Life Insurance Policyholders (Net of Reinsurance) (+/-)		
5- Change in Other Technical Provisions (Net of Reinsurance) (+/-)		
6- Operating Expenses (-)	6	(3,229,917.93)
7- Investment Expenses (-)		
8- Unrealized Losses on Investments		
9- Investment Income Transferred to Non-Technical Account		
F- Balance on Life Technical Account (D-E)		**1,924,474.68**
G- Pension System Technical Income		**0.00**
1- Fund Management Income		
2- Management Expenses Deduction		
3- Entrance Fee Income		
4- Management Expenses Deduction for Temporary Suspension		
5- Special Service Fees		
6- Capital Allocation Advance Appreciation Income		
7- Other Technical Income		
H- Pension System Technical Expenses		**0.00**
1- Fund Management Expenses (-)		
2- Capital Allocation Advance Depreciation Expenses		
3- Operating Expenses (-)		
4- Other Technical Expenses (-)		
I- Balance on Pension System Technical Account (G-H)		**0.00**

Millî Reasürans Türk Anonim Şirketi
Income Statement 01.01.2005-31.12.2005 (TRY)

II- Non-Technical Account	Note	Current Period
C- Balance on Non-Life Technical Account		**24,385,784.47**
F- Balance on Life Technical Account		**1,924,474.68**
I- Balance on Pension System Technical Account		**0.00**
J- Balance on Technical Account (C+F+I)		**26,310,259.15**
K- Investment Income		**97,727,632.70**
1- Income from Financial Investments	7	62,228,709.03
2- Profits from Realization of Financial Investments		14,058,757.30
3- Valuation of Financial Investments		4,202,394.47
4- Currency Translation Gains		7,926,278.55
5- Income from Affiliates		761,795.79
6- Income from Subsidiaries and Joint-Ventures		
7- Income from Land and Buildings		8,540,550.55
8- Income from Derivatives		
9- Other Investments	8	9,147.01
10- Investment Income Transferred from Life Technical Account		
L- Investment Expenses (-)		**(68,280,343.18)**
1- Investment Management Expenses-Interest Included (-)	9	(34,497,015.40)
2- Investments Depreciation (-)		
3- Losses from Realization of Financial Investments (-)		(4,370,781.66)
4- Investment Income Transferred to Non-Life Technical Account (-)	10	(17,837,416.42)
5- Losses from Derivatives (-)		
6- Currency Translation Losses (-)		(8,806,735.83)
7- Amortisation Expenses (-)		(2,768,393.87)
8- Other Investment Expenses (-)		
M- Income and Expenses from Other and Extraordinary Operations (+/-)		**(587,137.87)**
1- Provisions (+/-)	11	(4,754,516.17)
2- Rediscounts (+/-)		
3- Compulsory Earthquake Insurance (+/-)		3,983,477.08
4- Inflation Adjustment (+/-)		
5- Deferred Tax Asset (+/-)		
6- Deferred Tax Obligations Expenses (-)		
7- Other Income and Profits	12	225,248.49
8- Other Expenses and Losses (-)	13	(41,347.27)
9- Prior Year's Income and Profits		
10- Prior Year's Expenses and Losses (-)		
N- Net Profit/Loss for the Period		**36,921,125.24**
1- Profit/Loss for the Period		55,170,410.80
2- Taxes and Legal Obligations Payable (-)		(18,249,285.56)
3- Net Profit/Loss for the Period		36,921,125.24
4- Inflation Adjustment		

Millî Reasürans Türk Anonim Şirketi
Notes to the Income Statement

1. TRY 17.837.416,42 being followed under investment income from non-technical account involves the transfer of 20% of the amounts under financial income items in accordance with the Insurance Chart of Accounts published in the Official Gazette No.25686 dated 30 December 2004 and effective as from January 1st 2005.

Source of Income	Transferred Value (TRY)
Stocks	847.013,25
Treasury Bills	3.136.320,77
Government Bonds	6.855.492,08
Bank Deposits	1.605.794,81
Other Financial Assets	1.120,89
Mutual Funds	256.906,17
Repurchase Agreement	2.554.845,29
Stock Valuation	840.478,89
Currency Translation Gains	1.585.255,71
Profit Shares	152.359,16
Sales Profits	1.829,40
Total	**17.837.416,42**

2. TRY 2.719.671,69 under other technical income includes interest accruing from reserves with insurance and reinsurance companies (TRY 2.524.046,52), currency translation differences (TRY -591.547,07) and other income items (TRY 787.172,24).

3. TRY 4.781.971,40 reflected under change in other technical provisions is contingency fund for earthquake.

4. The amount of TRY 150.938.017,23 followed under operating expenses account is the sum of net commissions (TRY 139.923.390,57), and the transfer of 50% of the financial expenses items to the related technical accounts (TRY 8.823.720,94) which has been made in accordance with Insurance Chart of Accounts published in the Official Gazette No.25686 dated 30 December 2004 and effective as of January 1st 2005, and other expenses (TRY 2.190.905,72).

5. TRY 4.867,88 under other technical income includes income from currency translation and income from the interest accruing from reserves with insurance and reinsurance companies.

6. Operating expenses of TRY 3.229.917,93 are shown in the table below:

Operating Expenses	TRY
Acquisition Expenses	3.237.079,33
Personnel Expenses	349.543,49
Administrative Expenses	461,05
Reinsurance Commissions	(357.071,92)
Other Operating Expenses	(94,02)
Total	**3.229.917,93**

7. Income from financial investments is as follows:

Income From Financial Investments	TRY
Income from Sales of Stocks	4.235.066,25
Interest Income from Treasury Bills	15.681.603,87
Interest Income from Government Bonds	30.046.985,38
Interest Income from Eurobonds	4.230.475,04
Interest Income from Bank Deposits	8.028.974,06
Interest Income Due from Personnel	5.604,43
Total	**62.228.709,03**

Stocks are valued on the basis of weighted average of daily prices determined in Istanbul Securities Exchange Market within 5 days prior to the drawing up of the balance sheet. Government bonds and treasury bills are valued on the basis of weighted average of prices determined in Istanbul Securities Exchange Market and published in the Official Gazette. The valuation of eurobonds is made at the buying rate of exchange of Turkish Central Bank and on the rediscount on coupons interest income.

8. Income from other investments of TRY 9.147,01 is derived from the sale of idle company cars.

9. Investment management expenses are as follows:

Investment Management Expenses	TRY
Personnel Expenses	7.297.951,47
Administrative Expenses	3.006.854,49
Outsourcing Expenses	261.404,78
Other Operating Expenses	23.892.722,27
Other Investment Management Expenses	34.976,02
Rental Expenses (Leasing)	3.106,37
Total	**34.497.015,40**

TRY 23.892.722,27 followed under other operating expenses account consists of the payments to the Undersecretariat of Treasury in accordance with the valuation of the company, in the context of the special agreement dated 22nd April 1992 made between Millî Reasürans T.A.Ş. and Undersecretariat of Treasury (TRY 20.467.926), insurance transactions tax (TRY 1.487.017,75) and other liabilities (TRY 1.937.778,52).

10. TRY 17.837.416,42 encompasses the transfer of 20% of some financial income items detailed in note No.1 to the related technical accounts in accordance with Insurance Chart of Accounts published in the Official Gazette No.25686 dated 30 December 2004 and effective as of January 1st 2005.

11. The amount of TRY 4.754.516,17 is composed of the sum of the provision for employment termination benefits (TRY 295.039,42) and provision for doubtful receivables (TRY 4.459.476,75).

12. Other income and profits with a value of TRY 225.248,49 consists of incidental income items.

13. Other expenses and losses with a value of TRY 41.347,27 encompass the items which are non-assessable or disallowed.

Millî Reasürans Türk Anonim Şirketi
Balance Sheet 31 December 2005 (TRY)

Assets	Note	31.12.2005
I- Current Assets		
A- Cash and Cash Equivalents		**267,895,204.47**
1- Cash		36,245.45
2- Cheques Received		56,455.00
3- Banks	1	267,898,543.74
4- Cheques Given and Payment Orders (-)		(96,039.72)
5- Other Cash and Cash Equivalents		
B- Financial Assets and Financial Investments at Insureds' Risk		**314,034,502.11**
1- Financial Assets Available-for-sale		
2- Financial Assets Held to Maturity		
3- Trading Financial Assets	2	314,034,502.11
4- Loans		
5- Provision for Loans (-)		
6- Financial Investments at Life Insurance Policyholders' Risk		
7- Company's Share		
8- Provision for Diminution in Value of Financial Assets (-)		
C- Receivables from Technical Operations		**67,127,867.43**
1- Due from Insurance Operations		
2- Provision for Due from Insurance Operations (-)		
3- Due from Reinsurance Operations	3	28,593,057.09
4- Provision for Due from Reinsurance Operations (-)		
5- Reserves with Insurance and Reinsurance Companies	4	38,534,810.34
6- Loans and Mortgages to Insureds		
7- Provision for Loans and Mortgages to Insureds (-)		
8- Due from Pension Operations		
9- Doubtful Receivables from Operations		
10- Provision for Doubtful Receivables from Operations (-)		
D- Receivables from Related Parties		**685,604.27**
1- Due from Shareholders		
2- Due from Affiliates		
3- Due from Subsidiaries		
4- Due from Joint-Ventures		
5- Due from Personnel		681,763.65
6- Due from Other Related Parties		3,840.62
7- Rediscount on Due from Related Parties (-)		
8- Doubtful Receivables from Related Parties		
9- Provision for Doubtful Receivables from Related Parties (-)		
E- Other Receivables		**393.13**
1- Leasing Receivables		
2- Unearned Leasing Interest Income (-)		
3- Deposits and Guarantees Given		393.13
4- Other Receivables		
5- Rediscount on Other Receivables (-)		
6- Other Doubtful Receivables		
7- Provision for Other Doubtful Receivables (-)		
F- Prepaid Expenses for Future Months and Income Accruals		**5,237,646.39**
1- Prepaid Expenses for Future Months		
2- Accrued Interest and Rental Income		
3- Income Accruals	5	5,237,646.39
4- Other Prepaid Expenses for Future Months and Other Income Accruals		
G- Other Current Assets		**15,162,160.05**
1- Inventories		40,668.71
2- Prepaid Taxes and Funds	6	9,593,347.54
3- Deferred Tax Assets		
4- Work Advances		
5- Advances to Personnel		
6- Inventory Shortages		
7- Other Current Assets	7	5,528,143.80
8- Provision for Other Current Assets (-)		
I- Total Current Assets		**670,143,377.85**

Millî Reasürans Türk Anonim Şirketi
Balance Sheet 31 December 2005 (TRY)

Assets	Note	31.12.2005
II- Non-Current Assets		
A- Receivables from Technical Operations		**0.00**
1- Due from Insurance Operations		
2- Provision for Due from Insurance Operations (-)		
3- Due from Reinsurance Operations		
4- Provision for Due from Reinsurance Operations (-)		
5- Reserves with Insurance and Reinsurance Companies		
6- Loans and Mortgages to Insureds		
7- Provision for Loans and Mortgages to Insureds (-)		
8- Due from Pension Operations		
9- Doubtful Receivables from Operations	8	8,561,092.23
10- Provision for Doubtful Receivables from Operations (-)		(8,561,092.23)
B- Receivables from Related Parties		**14,865.67**
1- Due from Shareholders		
2- Due from Affiliates		
3- Due from Subsidiaries		
4- Due from Joint-Ventures		
5- Due from Personnel	9	14,865.67
6- Due from Other Related Parties		
7- Rediscount on Due from Related Parties (-)		
8- Doubtful Receivables from Related Parties		
9- Provision for Doubtful Receivables from Related Parties (-)		
C- Other Receivables		**0.00**
1- Leasing Receivables		
2- Unearned Leasing Interest Income (-)		
3- Deposits and Guarantees Given		
4- Other Receivables		
5- Rediscount on Other Receivables (-)		
6- Other Doubtful Receivables	10	11,136.31
7- Provision for Other Doubtful Receivables (-)		(11,136.31)
D- Financial Assets	**11**	**138,420,403.32**
1- Long Term Securities		18,056,815.16
2- Affiliates		119,915,219.61
3- Capital Commitments for Affiliates (-)		
4- Subsidiaries		448,368.55
5- Capital Commitments for Subsidiaries (-)		
6- Joint-Ventures		
7- Capital Commitments for Joint-Ventures (-)		
8- Financial Assets and Financial Investments at Insureds' Risk		
9- Other Financial Assets		
10- Provision for Diminution in Value of Financial Assets (-)		
E- Tangible Assets	**12**	**120,870,742.93**
1- Real Estate Investments		70,645,808.38
2- Provision for Diminution in Value of Real Estate Investments (-)		
3- Company Occupied Real Estate		58,747,473.04
4- Machinery and Equipment		
5- Fixtures and Furniture		1,418,732.12
6- Motor Vehicles		387,847.15
7- Other Tangible Assets (Including Special Costs)		
8- Leased Assets		
9- Accumulated Amortisation (-)		(10,329,117.76)
10- Advances Given for Tangible Assets (Including Construction in Progress)		
F- Intangible Assets		**66,293,747.83**
1- Rights		43,469.13
2- Goodwill		
3- Start-up Costs		
4- Research and Development Expenses		
5- Other Intangible Assets	13	66,264,766.96
6- Accumulated Amortisation (-)		(14,488.26)
7- Advances Given for Intangible Assets		
G- Prepaid Expenses for Future Years and Income Accruals		**0.00**
1- Prepaid Expenses for Future Years		
2- Income Accruals		
3- Other Prepaid Expenses for Future Years and Other Income Accruals		
H- Other Non-Current Assets		**0.00**
1- Effective Foreign Currency Accounts		
2- Foreign Currency Accounts		
3- Inventories for Future Years		
4- Prepaid Taxes and Funds		
5- Deferred Tax Assets		
6- Other Non-Current Assets		
7- Other Non-Current Assets Amortisation (-)		
8- Provision for Diminution in Value of Other Non-Current Assets (-)		
II- Total Non-Current Assets		**325,599,759.75**

Millî Reasürans Türk Anonim Şirketi
Balance Sheet 31 December 2005 (TRY)

Liabilities	Note	31.12.2005
III- Short-Term Liabilities		
A- Financial Liabilities		**0.00**
1- Due to Credit Institutions		
2- Leasing Payables		
3- Deferred Leasing Costs (-)		
4- Current Maturities of Long-Term Loans and Accrued Interest		
5- Current Maturities of Issued Bonds and Accrued Interest		
6- Other Issued Financial Assets		
7- Value Difference of Other Issued Financial Assets (-)		
8- Other Financial Payables (Liabilities)		
B- Payables from Operations		**18,330,639.68**
1- Payables from Insurance Operations		
2- Payables from Reinsurance Operations	14	17,389,704.54
3- Reserves of Insurance and Reinsurance Companies	15	940,935.14
4- Payables from Pension Operations		
5- Payables from Other Operations		
6- Rediscounts on Other Notes Payable (-)		
C- Due to Related Parties		**158,894.33**
1- Due to Shareholders	16	158,894.33
2- Due to Affiliates		
3- Due to Subsidiaries		
4- Due to Joint-Ventures		
5- Due to Personnel		
6- Due to Other Related Parties		
D- Other Payables		**140,728.23**
1- Deposits and Guarantees Received		
2- Other Payables	17	140,728.23
3- Rediscount on Other Payables (-)		
E- Insurance Technical Provisions	**18**	**392,331,935.94**
1- Provision for Unearned Premiums-Net		219,789,638.58
2- Provision for Unexpired Risks-Net		
3- Mathematical Reserves (Life)-Net		759,494.57
4- Provision for Outstanding Losses and Indemnities-Net		171,782,802.79
5- Provision for Bonus and Reduction-Net		
6- Provision for Investment Risk at Life Insurance Policyholders-Net		
7- Other Technical Provisions-Net		
F- Taxes Payable and Other Fiscal Liabilities and Provisions		**18,674,736.33**
1- Taxes and Funds Payable		369,446.14
2- Social Security Withholdings Payable		56,004.63
3- Overdue, Deferred or Restructured Taxes and Other Fiscal Liabilities		
4- Other Taxes and Fiscal Liabilities		
5- Provision for Corporate Tax and Other Legal Liabilities		18,249,285.56
6- Prepaid Corporate Tax and Other Fiscal Liabilities on Profit (-)		
7- Provisions for Other Taxes and Fiscal Liabilities		
G- Provisions for Other Risks		**0.00**
1- Provision for Employment Termination Benefits		
2- Provision for Social Benefit Fund Deficits		
3- Provision for Costs		
H- Income Related to Future Months and Expense Accruals	**19**	**49,456.30**
1- Income Related to Future Months		40,956.29
2- Expense Accruals		8,500.01
3- Other Income Related to Future Months and Expense Accruals		
I- Other Short-Term Liabilities		**0.00**
1- Deferred Tax Liabilities		
2- Inventory Overages		
3- Other Short-Term Liabilities		
III- Total Short-Term Liabilities		**429,686,390.81**

Millî Reasürans Türk Anonim Şirketi
Balance Sheet 31 December 2005 (TRY)

Liabilities	Note	31.12.2005
IV- Long-Term Liabilities		
A- Financial Liabilities		**0.00**
1- Due to Credit Institutions		
2- Leasing Payables		
3- Deferred Leasing Costs (-)		
4- Bonds Issued		
5- Other Issued Financial Assets		
6- Value Difference of Other Issued Financial Assets (-)		
7- Other Financial Payables (Liabilities)		
B- Payables from Operations		**0.00**
1- Payables from Insurance Operations		
2- Payables from Reinsurance Operations		
3- Reserves of Insurance and Reinsurance Companies		
4- Payables from Pension Operations		
5- Payables from Other Operations		
6- Rediscount on Other Notes Payable (-)		
C- Due to Related Parties		**0.00**
1- Due to Shareholders		
2- Due to Affiliates		
3- Due to Subsidiaries		
4- Due to Joint-Ventures		
5- Due to Personnel		
6- Due to Other Related Parties		
D- Other Payables		**0.00**
1- Deposits and Guarantees Received		
2- Other Payables		
3- Rediscount on Other Payables (-)		
E- Insurance Technical Provisions		**96,448,582.14**
1- Provision for Unearned Premiums-Net		
2- Provision for Unexpired Risks-Net		
3- Mathematical Reserves (Life)-Net		
4- Provision for Outstanding Losses and Indemnities-Net		
5- Provision for Bonus and Reduction-Net		
6- Provision for Investment Risk at Life Insurance Policyholders-Net		
7- Other Technical Provisions-Net	20	96,448,582.14
F- Other Liabilities and Provisions		**0.00**
1- Other Liabilities		
2- Overdue, Deferred or Restructured Taxes and Other Fiscal Liabilities		
3- Provisions for Other Debts and Expenses		
G- Provisions for Other Risks		**3,905,915.43**
1- Provision for Employment Termination Benefits		3,905,915.43
2- Provision for Social Benefit Fund Deficits		
H- Income Related to Future Years and Expense Accruals		**0.00**
1- Income Related to Future Years		
2- Expense Accruals		
3- Other Income Related to Future Years and Expense Accruals		
I- Other Long-Term Liabilities		**0.00**
1- Deferred Tax Liabilities		
2- Other Long-Term Liabilities		
IV- Total Long-Term Liabilities		**100,354,497.57**

Millî Reasürans Türk Anonim Şirketi
Balance Sheet 31 December 2005 (TRY)

Shareholder's Equity	Note	31.12.2005
V- Shareholder's Equity		
A- Paid-Up Capital		**343,000,000.00**
1- Nominal Capital	21	343,000,000.00
2- Unpaid Capital (-)		
3- Capital Reserve Due to Inflation Adjustment of Paid-Up Capital		
4- Capital Reserve Due to Inflation Adjustment of Paid-Up Capital (-)		
B- Capital Reserves		**2,194,841.31**
1- Share Premium		
2- Share Cancellation Profits		
3- Sales Profits to be Transferred to Share Capital	22	2,194,841.31
4- Currency Translation Differences		
5- Other Capital Reserves		
C- Profit Reserves		**102,039,458.81**
1- Legal Reserves		7,755,628.55
2- Statutory Reserves		318,173.32
3- Extraordinary Reserves		5,561.05
4- Special Reserves		
5- Valuation of Financial Assets	23	53,494,825.94
6- Other Profit Reserves	24	40,465,269.95
D- Retained Earnings		**10,225,540.82**
1- Retained Earnings	25	10,225,540.82
E- Losses from Previous Years (-)		**(28,678,716.96)**
1- Losses from Previous Years	26	(28,678,716.96)
F- Net Profit for the Period		**36,921,125.24**
1- Net Profit for the Period		36,921,125.24
2- Net Loss for the Period (-)		
Total Shareholder's Equity		**465,702,249.22**

1. Banks account consists of the sum of deposits of TRY 223,630,318.03 and various foreign currencies of TRY 44,268,225.71 as at 31st December 2005. Time deposits of TRY 266,371,923.49 also include foreign currency time deposits of TRY 42,789,373.23. Banks account also includes contingency fund for earthquake of TRY 41,475,034.73. Banks account is subject to no restrictions except for the guarantee for the letter of credit of TRY 450,000 which has been issued for Beyoğlu Tax Office.

Breakdown of foreign currency deposit accounts are as follows:

Currency	Amount	Rate	TRY
USD	27,425,401.06	1.3418	36,799,403.13
EURO	1,926,545.97	1.5875	3,058,391.73
GBP	1,896,261.99	2.3121	4,384,347.35
CHF	25,602.18	1.0188	26,083.50
Total			**44,268,225.71**

Foreign currency transactions have been reflected in the accounts at the rates of exchange on transaction dates. Foreign currency deposits and securities have been valued at the buying rate of exchange of Turkish Central Bank prevailing at the balance sheet date and differences as the result of valuation have been reflected in the income statement as currency translation gains/losses.

2. Trading financial assets include stocks of TRY 22,056,304.73, treasury bills and government bonds with a total value of TRY 233,796,427.89, eurobonds with a value of TRY 57,917,733.51 and mutual funds with a value of TRY 264,035.98. Trading financial assets of TRY 54,973,547.41 corresponds to the contingency fund for earthquake. There are no restrictions on the aforementioned accounts.

TRY securities as of 31st December 2005 are as follows:

TRY Securities	Purchase Value	Market Value
Treasury Bills	23,123,296.74	25,069,159.34
Government Bonds	191,380,487.98	208,727,268.55
Stocks	17,973,726.33	22,056,304.73
Mutual Funds	264,035.98	264,035.98

Eurobonds as of 31st December 2005 are as follows:

Eurobond	Purchase Value	Rate	TRY
USD	40,548,085.93	1.3418	54,407,421.73
EURO	2,211,220.00	1.5875	3,510,311.78

3. Accounts due from reinsurance operations being TRY 28,593,057.09 consists of receivables from domestic insurance companies of TRY 23,480,296.99 and receivables from foreign companies of TRY 5,112,760.10.

4. TRY 38,534,810.34 followed under the reserves with insurance and reinsurance companies account consists of reserves with domestic insurance companies with a value of TRY 21,982,140.91 and reserves with foreign companies of TRY 16,552,669.43.

5. TRY 5,237,646.39 followed under income accrual accounts is composed of interest accruals regarding the financial year 2005 for time deposits having the maturity date 2006 being TRY 3,946,226.81 and the coupon payments of eurobonds regarding the financial year 2005 of TRY 1,291,419.58.

6. Prepaid taxes and funds constitute an amount of TRY 9,593,347.54. TRY 9,516,350.03 of this amount represents provisional tax paid on the 3rd quarter and the remaining TRY 76,997.51 is the witholding tax amount related to the interest income from time deposits and repurchase agreements.

7. Other current assets of TRY 5,528,143.80 encompass income from contingency fund for earthquake regarding the financial year 2005, with a value of TRY 4,906,456.19, the accrual of personnel's salaries for the period January 2006 amounting to TRY 597,231.05 and other miscellaneous accounts with a value of TRY 24,456.56.

8. TRY 8,561,092,23 followed under doubtful receivables from operations consists of receivables from foreign companies of TRY 1,951,977 and receivables from domestic insurance companies of TRY 6,609,115.23. 100% provision was set aside for this item.

9. TRY 14,865.67 due from personnel includes mortgage and loans to the personnel.

10. Other doubtful receivables of TRY 11,136.31 consist of uncollected rent amount from third parties. 100% provision was set aside for this item.

11. Long term securities, affiliates and subsidiaries as at 31.12.2005 are followed under financial assets account with our percentage shares as below:

Financial Assets	Book Value (TRY)	Millî Re's Share (%)
Anadolu Sigorta T.A.Ş.	113,822,279.65	21.780
T. Sınai Kalkınma Bankası A.Ş.	10,885,465.35	1.204
Anadolu Hayat Emeklilik A.Ş.	7,074,000.00	1.000
İş Girişim Sermayesi	3,339,220.90	4.444
Koç Allianz Sigorta A.Ş.	1,843,415.65	2.847
Miltaş Turizm İnşaat Tic. A.Ş.	755,896.70	78.000
İşnet Elektronik Bilgi Üretim	278,907.79	1.000
Paşabahçe Cam Sanayii A.Ş.	133,708.73	0.019
Anadolu Cam Sanayi A.Ş.	97,349.83	0.011
Güven Sigorta T.A.Ş.	94,464.17	0.049
Axa Oyak Sigorta A.Ş.	33,761.61	0.002
Çayırova Cam Sanayii	27,774.08	0.021
İş Merkezleri Yönetim A.Ş.	22,537.04	0.694
Miltaş Sigorta Aracılığı A.Ş.	9,165.27	5.000
Camiş Menkul Değerler A.Ş.	2,456.55	0.052
Total	**138,420,403.32**	

12. Buildings followed under the tangible assets account have a net book value of TRY 120,016,605.05 and book value of the land is TRY 0.01. All tangible assets are insured in full and on due dates. Amortisation procedures have been followed in accordance with Capital Market Board Communiqué Series: XI, No: 25. There is no restriction on tangible assets.

Real Estate Investments

Real Estate	Book Value (TRY)	Accumulated Amortisation (TRY)	Net Book Value (TRY)
Kendros Office Building	8,301.44	5,679.10	2,622.34
Suadiye Sports Center	8,770,566.35	805,172.07	7,965,394.28
Villa Office Building	1,942,908.22	216,587.78	1,726,320.44
Parking Garage	3,362,773.24	350,550.18	3,012,223.06
Büyükdere Business Center	27,247,267.08	2,157,491.16	25,089,775.92
Automatic Parking Garage	19,661,334.28	887,229.51	18,774,104.77
Maçka Office Building	8,642,304.71	810,655.33	7,831,649.38
Küçüktan Office Building	517,747.40	101,824.30	415,923.10
Melis Apartment in Şişli	492,497.93	63,619.77	428,878.16
Total	**70,645,700.65**	**5,398,809.20**	**65,246,891.45**

Real Estate Occupied By Company

Real Estate	Book Value (TRY)	Accumulated Amortisation (TRY)	Net Book Value (TRY)
Head Office Building	58,747,473.04	3,977,759.44	54,769,713.60
Total	**58,747,473.04**	**3,977,759.44**	**54,769,713.60**

13. Other intangible assets with a value of TRY 66,264,766.96 is the acquisition premium relating to the acquisition of Destek Reasürans T.A.Ş. by Millî Reasürans T.A.Ş. in 2005.

14. TRY 17,389,704.54 followed under payables from reinsurance operations includes payables from foreign companies with a value of TRY 2,277,070.94 and payables from domestic insurance companies with a value of TRY 15,112,633.60.

15. TRY 940,935.14 followed under reserves from insurance and reinsurance companies is the sum of reserves from domestic insurance companies being TRY 753,635.54 and reserves from foreign companies of TRY 187,299.60.

16. TRY 158,894.33 due to shareholders include dividends regarding the financial year 2004 and previous years not yet been collected by shareholders.

17. Other payables include personnel training budget assigned to the Undersecretariat of Turkish Treasury with a value of TRY 132,112.60, previous years dividends with a value of TRY 344.91 which will be paid to the founders, and other miscellaneous payables amounting to TRY 8,270.72.

18. The breakdown of insurance technical provisions is as follows:

Technical Provisions	TRY
a) Provision for Unearned Premiums-Net	219,789,638.58
Provision for Unearned Premiums	238,172,204.59
Retrocessionaires Share (-)	18,382,566.01
b) Provision for Outstanding Losses-Net	171,315,204.55
Provision for Outstanding Losses	203,714,502.41
Retrocessionaires Share (-)	32,399,297.86
c) Mathematical Reserves (Life)-Net	759,494.57
Mathematical Reserves (Life)	759,494.57
Retrocessionaires Share (-)	0.00
d) Provision for Outstanding Indemnity (Life)-Net	467,598.24
Provision for Outstanding Indemnity (Life)	467,598.24
Retrocessionaires Share (-)	0.00
Total	**392,331,935.94**

19. Income related to future months and expense accruals encompasses the 2006 portion of the sum of the rental income collected in advance of TRY 40,956.29 and the participation of tenants to general expenses, also collected in advance being TRY 8,500.01.

20. Other technical provisions include contingency fund for earthquake detailed below as at the end of 2005.

Contingency Fund for Earthquake (TRY)	96,448,582.14
a) Contingency Fund for Earthquake	92,175,005.75
b) Contingency Fund for Earthquake Claims Paid (-)	12,083,215.65
c) Contingency Fund for Earthquake Investment Income (+)	16,356,792.04

21. No privilege is granted to shareholders. Shareholders holding 10% and more of the equity are shown below:

Shareholder	Share (%)	Equity Participation (TRY)
Türkiye İş Bankası A.Ş.	76.64	262,868,405.05
Millî Reasürans T.A.Ş. Pension Fund	10.53	36,116,486.78
Other (25 Shareholders)	12.83	44,015,108.17

Paid-up capital of Millî Reasürans T.A.Ş. which was TRY 63,000.000 at the beginning of 2005, has been increased by TRY 264,766.96 on 03.06.2005 and reached TRY 63,264,766.96 as the result of the acquisition of Destek Reasürans T.A.Ş. by Millî Reasürans T.A.Ş. [a transaction made in accordance with Insurance Supervision Act, the Article No.451 and other related articles of Turkish Commercial Code and the articles No.37 and 39 of Corporate Tax Law]. Subsequently, on 24.11.2005, the paid-up capital has been increased by TRY 279,735,233.04 and has reached TRY 343,000,000. This increase incorporated inflation adjustment of paid-up capital amounting to TRY 170,765,870.66, profits from the sale of real estate of TRY 9,794,102.31, profits from previous years with a value of TRY 20,407,812.57, catastrophe fund of TRY 30,000,000 and other optional reserves of TRY 48,767,447.50.

22. Sales profits to be added to share capital is TRY 2,194,841.31. TRY 1,986,857.90 of this amount comes from the income generated from the sale of certain real estates in 2005 and the remaining TRY 207,983.41 consists of profits generated from the sale of some equity participations in 2005.

23. The valuation of financial assets in accordance with the market value of the financial assets as at 31.12.2005 within the context of Capital Market Board Communiqué Series: XI, No: 25 and the amount in excess after the valuation amounting to TRY 53,494,825.94 is followed under valuation of financial assets item in shareholder's equity account.

24. The amount of TRY 40,465,269.95 under shareholder's equity as a profit reserve is the contingency fund for earthquake of Destek Reasürans T.A.Ş. which has been transferred to this account by the termination of this liability as of 31.12.2005 due to the merger.

25. Retained earnings of TRY 10,225,540.82 reflects the adjustment made in accordance with the “Adjustment of Financial Statements in Hyperinflationary Economies” section of Capital Market Board Communiqué Series: XI, No: 25.

26. Losses from previous years with a value of TRY 28,678,716.96 include the adjustment amount of TRY 27,919,139.45 which has been made in accordance with the “Adjustment of Financial Statements in Hyperinflationary Economies” section of Capital Market Board Communiqué Series: XI, No: 25 and the amount of TRY 759,577.51 includes the loss appearing in Destek Reasürans T.A.Ş. balance sheet as at 31.05.2005 being the date of the merger.

27. Receivables and payables from TRY transactions are recorded in our accounts with their book value and transactions denominated in foreign currencies are followed with their equivalent TRY value after having been converted at the buying rate of exchange of the Turkish Central Bank prevailing on 31.12.2005.

28. Total number of employees of Millî Reasürans T.A.Ş. was 184 at the beginning of the financial year and 185 at the end.

29. The balance sheet has been approved on 13 March 2006.

Millî Reasürans Türk Anonim Şirketi
Profit Distribution (TRY)

	31.12.2004	31.12.2005
Profit Before Tax for the Period	14,284,683.05	55,170,410.80
Taxes and Legal Obligations Payable (-)	11,735,105.59	18,249,285.56
Net Profit for the Period	2,549,577.46	36,921,125.24
Losses in Previous Periods (-)	0.00	18,453,176.14
Distributable Profit	**2,549,577.46**	**18,467,949.10**
Legal Reserves	**264,361.14**	**1,846,794.91**
First Legal Reserves	254,957.74	1,846,794.91
Second Legal Reserves	9,403.40	0.00
Statutory Reserves	**1,071,853.57**	**13,052,082.76**
Catastrophe Fund	1,000,000.00	12,500,000.00
Other Optional Reserves	71,853.57	552,082.76
Distributed Profit	**1,213,362.75**	**3,569,071.43**
First Dividend to Shareholders	983,726.35	1,846,794.91
Second Dividend to Shareholders	23,669.54	1,574,443.17
Dividends to Employees	14,767.44	68,230.78
Dividends to Founders	10,881.27	79,602.57
Dividends to Undersecretariat of Treasury	180,318.15	0.00

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FOR IMMEDIATE RELEASE

CONTACTS: Public Relations
Jim Peavy
+(1) 908 439 2200, ext. 5644
james.peavy@ambest.com

Rachelle Striegel
+(1) 908 439 2200, ext. 5378
rachelle.striegel@ambest.com

Analysts
Simon Martin
+(44) 20 7626 6264
simon.martin@ambest.com

Ali Karakuyu
+(44) 20 7626 6264
ali.karakuyu@ambest.com

A.M. Best Assigns Ratings to Milli Reasurans Turk Anonim Sirketi

OLDWICK, NEW JERSEY, U.S.A., Jan. 3, 2006—A.M. Best Co. has assigned a financial strength rating (FSR) of B+ (Very Good) and an issuer credit rating (ICR) of "bbb-" to **Milli Reasurans Turk Anonim Sirketi** (Milli Re) (Turkey). The outlook on both ratings is stable.

The ratings reflect Milli Re's good overall risk-adjusted capitalisation, leading business position in the Turkish market and its robust operating performance. An offsetting factor is the company's continuing dependence upon investment income to offset underwriting losses.

A.M. Best expects Milli Re's prospective risk-adjusted capitalisation to remain good, despite the high level of credit risk associated with the concentration of the company's investment portfolio in Turkey. The company's requirement to build up a contingency fund for a major earthquake in Turkey, and which A.M. Best regards as equity, improves its risk-adjusted capitalisation.

Milli Re is expected to continue writing predominantly proportional treaty business and, in 2005 and 2006, its main business lines are likely to include accident, fire and health. A.M. Best expects the company to maintain its leading business position as the largest reinsurer by premium income in Turkey, a niche in which it has well-established business relationships with a 30% market share of gross reinsurance premium in 2004.

A.M. Best expects the company's gross written premium to increase to approximately TRY 665 million (USD 496 million) at year-end December 2005 and to approximately TRY 725 million (USD 540 million) in 2006 (compared to TRY 576 million [USD 430 million] in 2004). This will be achieved primarily by developing existing markets.

A.M. Best expects that Milli Re's profit after tax will increase to approximately TRY 18 million (USD 13 million) at year-end 2005 compared to TRY 11.6 million (USD 8.7 million) in 2004. This will be driven mainly by favourable claims settlement of Destek Reasurans Turk Anonim Sirketi's run-off business, acquired in January 2005. As a result, A.M. Best expects the 2005 loss ratio to improve to approximately 72% compared to 74.4% in 2004. In A.M. Best's opinion Milli Re's 2005 operating expense ratio is likely to remain high, in line with the 27.4% in 2004, due to the high commissions paid.

A.M. Best believes that in 2005 and 2006, Milli Re will continue to be reliant on investment income to offset underwriting losses. The 2005 investment return is expected to be reduced to approximately 13%, compared to 17.9% in the previous year, due to a high but declining interest rate environment in Turkey.

For Best's Ratings, an overview of the rating process and rating methodologies, please visit www.ambest.com/ratings.

MİLLÎ REASÜRANS T.A.Ş.
Teşvikiye Caddesi No: 43-57
34367 Teşvikiye, İstanbul-Turkey
Tel: +90 212 231 47 30
Fax: +90 212 230 86 08
www.millire.com

Produced by Tayburn Kurumsal