83rd year

2011 Annual Report

local leader, global partner

MİLLÎ REASÜRANS
since 1929

Contents

Presentation

Management and Corporate Governance

Financial Information and Assessment on Internal Systems

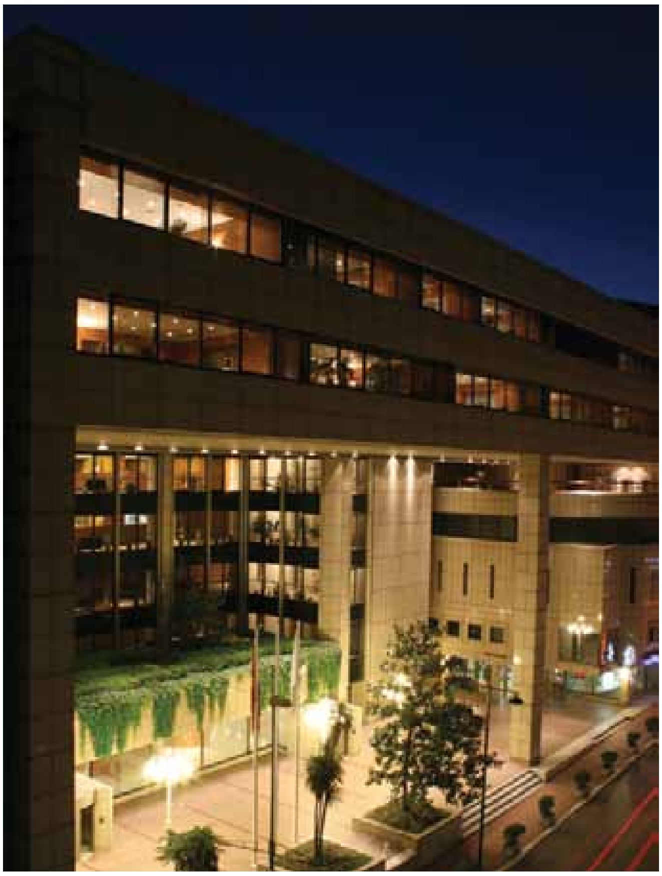
Vision

To maintain and further strengthen the key position in the local market and transform into a prominent reinsurance company in international markets.

Mission

- Provide quality service and effective solutions with best practice standards.
- Further strengthen its strong capital structure and financial adequacy.
- Ensure ethical, transparent conduct and high standards in its relations and to create value for all counterparties.
- Further enhance the development and the performance of employees aligned with the company-wide strategic targets.

Fulfilling alone nearly 25% of the industry's need for reinsurance coverage, Milli Re accepts business on a voluntary basis from the Turkish market since 1991.



Set up by Türkiye İş Bankası (İşbank) to operate the compulsory reinsurance system on February 26, 1929, Milli Reasürans (Milli Re) commenced operations on July 19, 1929.

Milli Re is the only national reinsurer that operates in the Turkish insurance market. The Company participates in reinsurance agreements in almost every branch of domestic and foreign companies operating in the market. This positions Milli Re beyond and above a local reinsurer and clearly displays its international prestige and the trust held in its robust financial structure.

Being a key actor in the formation and the development of the Turkish insurance industry, Milli Re made numerous contributions while operating the compulsory reinsurance system, including:

- Nationalization of the Turkish insurance industry,
- Generation of continuous revenues for the Undersecretariat of Turkish Treasury,
- Significant reduction in the outflow of foreign currencies,
- Execution of training and education programs in insurance business,
- Conducting top-notch international relations.

Milli Re managed the Turkish Reinsurance Pool from 1963 to 1985, and the Economic Cooperation Organization (ECO) Pool from 1975 to 1995, which was originally established under the name RCD Pool. Managing the Federation of Afro-Asian Insurers and Reinsurers (FAIR) Pool since 1974, the Company has also taken on the management of the Turkish Catastrophe Insurance Pool (TCIP), whose formation it spearheaded, from 2000 to 2005.

Combining the experience, confidence and prestige earned as the only active local reinsurance company in the Turkish insurance market with the know-how derived as the manager of the FAIR Pool, Milli Re began writing business extensively from international markets in 2006. Aiming for global expansion and portfolio diversification, the Company built a strong structure that is active also in international reinsurance markets and is resilient to competitive and market conditions.

The Company's performance is closely monitored by international rating agencies, A.M. Best has affirmed Milli Re's financial strength rating (FSR) as B++ (Good) on September 20, 2011. The outlook on the FSR remained stable. According to A.M. Best, this rating reflects Milli Re's strong capitalization and dominant position in the local market.

Standard & Poor's (S&P) affirmed its Turkish national scale rating on Milli Re as "trAA", effective from August 4, 2011. Standard & Poor's advises that the rating reflects the Company's leading competitive position in Turkey and its increasing international business.

Maintaining its position as the market leader on the back of its long-standing professional experience, robust financial structure and successful operational performance, Milli Re will continue to offer its reinsurance capacity to local and international markets.

Milli Re has taken on significant roles in the development of the Turkish insurance industry.

Milli Re Singapore Branch

As part of Milli Re's strategy to penetrate foreign markets, the Company, like many other internationally operating reinsurance companies, examined the benefits of opening regional branches. Accordingly it was decided to open the first branch in Singapore, in view of the relative weight of the Far East in the global insurance market, as well as its potential business volume and geographical location.

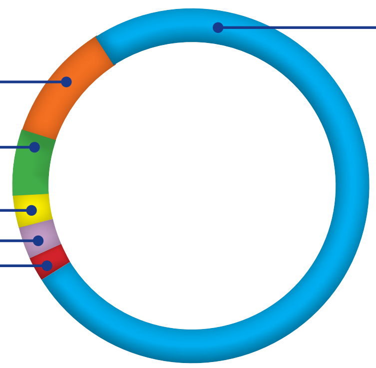
Having received the license for operation from the Monetary Authority of Singapore (MAS) in November 2007, the Singapore Branch rapidly pressed ahead with setting up basic infrastructure including the establishment of a data processing system and employment of personnel, and began to write business from April 1, 2008. The Singapore Branch plays an important role in the international portfolio of Milli Re.

Anadolu Sigorta

Holding 57.31% share in its capital, Milli Re is the principal shareholder in Anadolu Anonim Türk Sigorta Şirketi, one of the largest and established insurance companies in the Turkish insurance industry.

Milli Re's Singapore Branch provides service with an experienced and competent team of 10 people.

Milli Re Shareholder Structure



Milli Re's paid-up capital has been raised to TL 615 million.

Shareholder	Value of Stake (TL)	Stake (%)
İşbank	471,323,816.85	76.64
Milli Re Staff Pension Fund	64,833,521.40	10.54
Groupama Emeklilik A.Ş.	36,163,765.05	5.88
Undersecretariat of Turkish Treasury	20,724,060.90	3.37
Ziraat Bank	15,310,652.55	2.49
Other	6,644,183.25	1.08
Total	615,000,000.00	100.00

Note: Shareholders controlling 1% or greater stakes in the company are shown.

Capital increase

At the Annual General Meeting convened on March 28, 2011, it was decided to increase the Company's paid-up capital of TL 525,000,000 to TL 615,000,000 and to cover the incremental amount of TL 90,000,000 from statutory reserves in its entirety; the registration procedure for the said increase has been completed on April 14, 2011.

Changes in the shareholder structure in 2011

The Undersecretariat of Turkish Treasury took over shares with a value of TL 5,413,408 in the Turkish State Railways on September 6, 2011. Thus the share of the Undersecretariat of Turkish Treasury rose to 3.37% and to TL 20,724,061.

Changes made in the Articles of Association during 2011

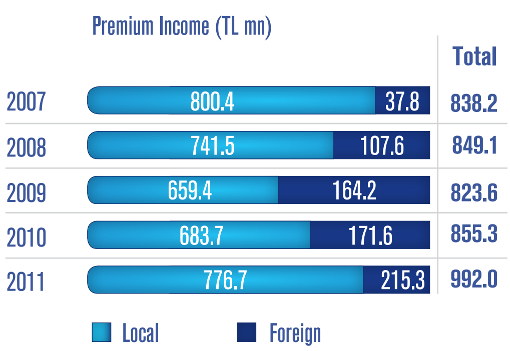
Article 6 – Capital of the Company's Articles of Association has been amended to reflect the increase of the Company's paid-up capital from TL 525,000,000 to TL 615,000,000 at the Annual General Meeting convened on March 28, 2011.

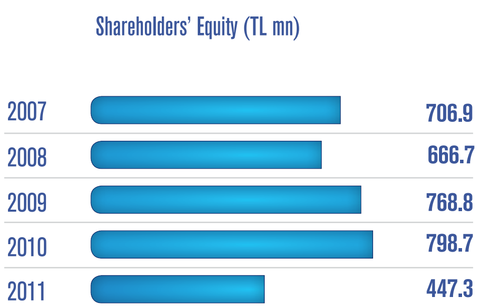
Key Financial Indicators

Financial Results (TL mn)	2010	2011	Change (%)
Total Assets	1,621.3	1,594.9	(1.6)
Shareholders' Equity	798.7	447.3	(44.0)
Technical Income	1,731.0	1,937.6	11.9
Technical Profit/Loss	21.6	(196.1)	-
Financial Income	84.8	86.1	1.5
Financial Profit/Loss	42.5	51.4	20.9
Profit/Loss for the Period	64.1	(144.7)	-

Milli Re increased its total premium production by 16% to TL 992 million in 2011.

Ratios (%)	2010	2011
Liquid Assets/Total Assets	54	56
Gross Written Premiums/Shareholders' Equity	107	222
Profit Before Tax/Gross Written Premiums	9	(15)
Shareholders' Equity/Total Assets	49	28
Profit Before Tax/Average Shareholders' Equity (Excluding Profit)	11	(22)
Profit Before Tax/Average Total Assets	5	(9)
Loss Ratio (Net)	79	103





Milestones

1929

Milli Re is founded by İşbank with a capital of TL 1,000,000 to operate the compulsory reinsurance system.

1963

The management of "Turkish Reinsurance Pool" established to write international business was handed over to Milli Re in accordance with the agreement with Turkish insurance companies.

1967

The management of "RCD Fire Reinsurance Pool" established under an agreement entitled "Cooperation for Regional Development" between Turkey, Iran and Pakistan, was handed over to Milli Re.

1970

The management of the system known as "Decree Pool" established according to Decree no. 17 set out by the Ministry of Finance on the Protection of the Value of Turkish Currency was handed over to Milli Re.

"Türk Sigorta Enstitüsü Vakfı" (Turkish Insurance Institute Foundation) was established by Milli Re and the Association of the Insurance and Reinsurance Companies of Turkey.

1974

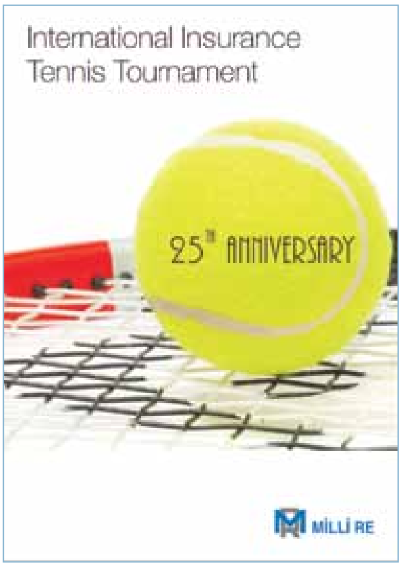
The management of "Fair Reinsurance Pool" established by the Federation of Afro-Asian Insurers & Reinsurers (FAIR) was handed over to Milli Re.

1982

Compulsory reinsurance cessions to Milli Re on Quota Share Basis were changed to Surplus Basis.

1986

MİLTAŞ Sports Facilities, built under the efforts of Milli Re, and which hosts the traditional "International Insurers Tennis Tournament" organization, was brought into the service of the sector



1991

Milli Re began to offer additional reinsurance capacity to the sector, by drawing up its first reinsurance treaties apart from "Compulsory Cessions" and "Decree Pool".

"Reasürör" magazine, which is a scientific resource with full academic content including compilations, translations, interviews, and statistical information in a variety of branches, was first published.

1993

Milli Re moved to its head office newly constructed in Teşvikiye.

1994

Milli Reasürans Art Gallery, a corporate gallery where works by prominent local and foreign artists are exhibited, and renowned for its publications, was opened.

1996

Milli Reasürans Chamber Orchestra was established. The orchestra is made up of artists, most of whom also continue their solo music careers, and the orchestra performs with the participation of locally and internationally known conductors and musicians.

2000

Turkish Catastrophe Insurance Pool (TCIP) set up alongside the "Compulsory Earthquake Insurance" system established by the Undersecretariat of Turkish Treasury became operational under the management of Milli Re.

2001

Risk-based Compulsory Reinsurance System has come to an end.

2005

Milli Re became the only active and local reinsurance company in the Turkish market after purchasing Destek Reasürans T.A.Ş.

2006

Milli Re began to actively accept business from outside Turkey.

Decree Pool was terminated.

2007

The Singapore Branch, which is expected to play an important role for Milli Re in expanding its presence in foreign markets, was opened.

2010

Milli Re acquired an additional 35.53% stake in Anadolu Sigorta, which is a group company.

Accordingly, Milli Re, Turkey's one and only active local reinsurance company, increased its share in the capital of Anadolu Sigorta, one of the largest and established insurance companies in the sector, to 57.31%.

2011

Milli Re raised its paid-up capital from TL 525 million to TL 615 million. In line with the target of increasing activities in international reinsurance markets, premiums generated on the international portfolio reached 22% of total premium production.

Mahmut MAGEMİZOĞLU

2011 has been a positive year for the Turkish economy and insurance industry.

An important indicator of this positive development is the 21.5% increase in the total premium production by the insurance industry, which is highly above the annual inflation rate.

2011 has been a positive year for the Turkish economy and insurance industry, despite the economic crisis that has been going on particularly in the European Union area and is expected to spread gradually. An important indicator of this positive development is the 21.5% increase in the total premium production by the insurance industry, which is highly above the annual inflation rate.

Although the Turkish insurance industry showed real growth during 2011, the price-based competition continued intensely particularly in Land Vehicles, Land Vehicles Liability and Health insurances. Jointly accountable for nearly 60% of the non-life premium production, these branches failed to produce profitable resultant desired levels in 2011, as was the case in the year before, owing to the high loss ratios and the lately introduced changes in the calculation of Technical Provisions.

2011 was one of the years with highest insured catastrophe losses worldwide. Natural catastrophes such as hurricane, earthquake and flood that occurred in different parts of the world not only caused significant insured losses, but also forced insurers and reinsurers to reassess their approaches to writing catastrophe business and to catastrophe models.

Our Company was able to attain real growth with nearly 16% rise in premium production. Although approximately 60% of the total premiums in the industry is controlled by international insurance companies via their subsidiaries operating in our country, the Company was able to maintain its share in the local reinsurance market in a balanced manner. In addition, the growth of international business underwritten by the Company to 22% of the total premium portfolio indicates that the Company's international expansion strategy has acquired certain stability.

The Company posted loss on its 2011 operations due to the increased loss activity in fire business from the local market and catastrophe losses from international portfolio all of which remained in the net account, combined with the significant increase in technical provisions due to the change in the calculation method in accordance with the provision of the new legislation.

Our Company refrains from an exclusively premium-oriented approach to business and opts to withdraw from loss producing lines that have a negative impact on financial results. This approach has continued and even more effective measures were put into practice in 2012 renewals. Taking into consideration that the premium increase attained in 2011 in profitable branches will continue in the years to come, it is expected that our Company's underwriting portfolio will gain a healthier composition.

Milli Re is the only local reinsurer in the Turkish insurance market, where many major international insurance and reinsurance companies operate and which is dominated by intense competition. The Company's experience that spans over 83 years, its solid financial structure, and the trust of business partners, combined with premium production 22% of which is derived from international markets, point to the fact that Milli Re is a reliable reinsurer not only in the Turkish market but also in the international arena.

Our Company targets to continue with its operations in local and international markets in the usual manner and remain a trusted business partner in the years to come. I would like to extend my gratitude to all our shareholders and particularly İşbank for providing every support in bringing us to this position, to insurance companies, and our valuable employees for their committed hard work.

Mahmut MAGEMİZOĞLU
Chairman of the Board of Directors

Milli Re is the only local reinsurer in the Turkish insurance market, many major international insurance and reinsurance companies operate and which is dominated by intense competition.

Hasan Hulki YALÇIN

In 2011, Milli Re increased its premium production by 16% year-on-year to TL 992 million.

Paid losses were up 10% year-on and reached TL 680 million in 2011. Furthermore, with the significant impact of regulatory changes, technical provisions grew approximately 43% as compared to the previous year and went up to TL 1,115 million.

Having started improving from the second half of 2009 with the contribution of fiscal and monetary measures introduced after the global economic crisis, the world economy adopted a rapid recovery trend in 2010. However, before it could gain momentum, this trend was reversed by the end of the first quarter of 2011.

2011 has been a year marked with negative developments in many economies, primarily in developed countries. The debt crisis and growth issues experienced by some European Union countries, in particular, indicate that these negative circumstances in financial markets are likely to continue. Turkey, on the other hand, has been one of the strongest growth performers worldwide with a growth rate of 8.5% as at the end of 2011 that followed the powerful growth of 9.2% in 2010.

2011 has been a year marked with negative developments in many economies, primarily in developed countries.

The positive trend in the national economy was reflected on the Turkish insurance industry, and total premium production increased 21.5% in 2011. Insured losses caused by two earthquakes in Van in October and November are estimated at a worth of only TL 75 million, excluding compulsory earthquake insurance, due to the low insurance penetration in the region. Nevertheless, it is predicted that the insurance industry will not be able to post positive technical results in 2011 in non-life branches as in the previous year, as a consequence of the ongoing price-based competition particularly in Land Vehicles (Own Damage, Traffic) and Health insurances which on a combined basis have the largest share in non-life premium production, and the recently introduced methodology in calculating technical provisions.

2011 went down in the records as the second costliest year in near history following 2005, owing to the high number of catastrophes that occurred. Economic loss resulting from natural catastrophes that hit different parts of the world are estimated at USD 435 billion, with an insured loss of USD 107 billion. Insured loss figures are estimated to be USD 24 billion caused by the floods that took place in Australia and Thailand, USD 51 billion caused by the earthquakes that hit Japan and New Zealand, and USD 23 billion caused by the tornadoes and hurricanes in the US.

Natural catastrophes in 2011 significantly affected insurance and reinsurance companies. While there was only a marginal decline in the reinsurance capital allocated, there were changes in the risk perceptions of companies, as well as their approaches to portfolio diversity; moreover, the adequacy of natural catastrophe models widely used in the market have been seriously challenged. On the other hand, high rate increases were observed particularly in areas where natural disasters occurred, while there were limitations in the scope of treaties as well as sub-limits introduced in reinsurance programmes. Hence, it is a common opinion that the prevailing soft market conditions are coming to an end and will be replaced by a stricter underwriting discipline.

In 2011, Milli Re increased its premium production by 16% year-on-year to TL 992 million. Of this amount, 78% that corresponds to TL 777 million was derived from local business, while the remaining 22% of TL 215 million was generated by the international portfolio. Paid losses were up 10% year-on and reached TL 680 million in 2011. Furthermore, with the significant contribution of regulatory changes, technical provisions grew approximately 43% as compared to the previous year and went up to TL 1,115 million.

Our Company's total assets were worth TL 1,595 million and shareholders' equity amounted to TL 447 million as of year-end 2011.

We have been affected, although at a limited scale, by the global natural catastrophes; there was an increase particularly in fire losses from the local market all of which remained in the net account and the large amount of technical provisions calculated in accordance with the revised legislation and booked for the first time were the main factors influencing our operating result, which was a loss in 2011. With the combined effect of all, we posted loss on our 2011 operations. On the other hand, we have continued with our policy to withdraw from loss generating branches and a significant number of agreements have not been renewed in 2012, particularly in Land Vehicles (Own Damage), Land Vehicles Liability (Traffic) and Health branches.

Our financial profit improved on the back of our liquid and secure investment portfolio on a year-on-year basis, and our Company's paid-up capital has increased to TL 615 million through a capital raise of TL 90 million financed from retained earnings. Our Company's total assets were worth TL 1,595 million and shareholders' equity amounted to TL 447 million as of year-end 2011.

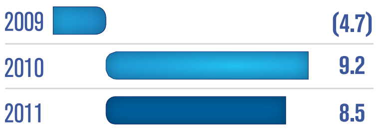
As Milli Re maintains its leadership in the local market owing to its solid financial structure and experience, it also continues to increase the level of involvement and quality of international underwritings. In addition to its contributions to the Turkish insurance industry for 83 years, Milli Re also maintains the aim of becoming a preferred business partner also in the international arena. I would like to extend my thanks to our shareholders, business partners and employees for their continuous support in this direction.

Hasan Hulki YALÇIN
Board Member and General Manager

Turkish Economy and Outlook

As of year end 2011, GDP went up 8.5% on the basis of fixed prices, to TL 114,874 million.

GDP Growth Rate
On the basis of Fixed Prices (%)



Turkish economy grew 8.5% in 2011.

GDP was up 8.4% year-on-year in the third quarter of 2011 on the basis of fixed prices and reached TL 31,087 million. GDP increase in the first and second quarters of 2011 was 11.9% and 9.1%, respectively. Although the rate of increase in economic activity lost pace in the second and third quarters as compared with the first quarter, it maintained its strong course. As of year end 2011, GDP went up 8.5% on the basis of fixed prices, to TL 114,874 million. The growth in GDP was driven mainly by domestic demand.

Inflation shows an upward trend.

There was 10.45% rise year-on in the 2003 Based Consumer Prices Index (CPI) in December 2011. Throughout the year, key drivers behind the rise in inflation were the depreciated Turkish Lira and the increased prices in the alcoholic beverages and the tobacco group involving higher taxes. 2012 CPI target is set at 5%.

The Producer Price Index (PPI) inflation rate, on the other hand, climbed from 8.87% in December 2010 to 13.33% in December 2011. Evaluated on the basis of the sub-sectors of the industry, the PPI results showed the highest monthly rise in the manufacture of tobacco products sub-sector with 7.64%.

Increase in imports highly outpaced exports.

In 2011, total exports were up by 18.5% and reached USD 135 billion, whereas imports increased by 29.8% to USD 241 billion. As a result of the increase in imports largely outpacing exports, foreign trade deficit expanded rapidly, and the ratio of exports to imports went up from 61.4% in 2010 to 56.0% in 2011.

The primary factors that negatively affected Turkey's exports have been the ongoing issues in the euro area that represents our largest export market and the political developments in the Middle East and North Africa that are considered as alternative markets.

Current deficit is a source of concern.

Based on the balance of payments statistics published by the Central Bank of the Republic of Turkey (CBRT), 2011 current account generated a deficit of USD 77,089 million, USD 30,446 million higher than in 2010. This development contributed to the foreign trade deficit that expanded by USD 32,973 million to reach USD 89,418 million.

Balance of services showed an income of USD 39,028 million and expenses of USD 20,706 million, resulting a surplus of USD 18,322 million.

Total net outflow from other investments consisting of direct investments, portfolio investments and interests under the balance of investment income increased by USD 567 million and rose to USD 7.576 million in 2011.

While Turkey ranked high among world countries in terms of GDP growth in the third quarter of 2011, our country was first in terms of the current deficit/GDP ratio. 11.7% in the first quarter of the year, the current deficit/GDP ratio declined to 11.2% in the second quarter and to 8.1% in the third. On the basis of the first nine months of 2011, the current deficit/GDP ratio was 10.3%.

The budget performance maintained its positive course in 2011.

As a result of the tight fiscal policy in place, budget data continue to present a positive outlook. In addition the large growth in budget revenues, the increase in non-interest expenses and the decrease in interest expenses are noteworthy.

While the budget produced a surplus of TL 439 million in the first eleven months of the year, non-interest surplus tripled the year-end target.

With the contribution of increased revenues in all tax categories, the ratio of budget revenues to budget expenses went up to 99%. However, it should be kept in mind that the probable slowdown in economic activity in 2012 might have a significant impact on indirect tax revenues, in particular.

CBRT implements an effective monetary policy.

Starting from late 2010, the CBRT targeted to steer economy toward a gradually healthier growth composition through the policies introduced, while keeping the medium-term inflation outlook intact.

The CBRT took a series of steps during the year, in an effort to limit the negative effects of the volatilities in the foreign currency market and the developments in global economy on domestic economic activity, and to prevent inflation expectations from getting stronger.

In 2011, required reserves continued to be used as an active policy tool to manage Turkish Lira and foreign currency liquidity and to strengthen reserves. On the other hand, necessary measures have been implemented with support from other institutions in order to make sure that credit expansion remained within reasonable amounts.

A five-component action plan has been announced on October 26, 2011 to strengthen the value of the Turkish Lira significantly: price stability, interest policy, foreign currency reserve policy, obligatory reserves policy and financial stability.

Based on the decision passed in the November meeting, the Monetary Policy Committee kept one-week repo rate (policy rate) unchanged at 5.75%, the overnight interest rate at 5%, the overnight lending rate at 12.5%, and the interest rate on borrowing facilities provided for primary dealers via repo transactions at 12%.

As the CBRT continued to implement the free floating exchange rate regime during 2011, it kept a close eye on changes in exchange rates and intervened through selling or buying against of any development in exchange rates that would negatively affect the economy.

As the Turkish Lira lost value against Dollar and Euro in 2011, foreign currency prices broke historic records. The US Dollar hit its highest-ever value at TL 1.9050 on October 4th on the free market.

Based on the CBRT's indicative exchange rates, the exchange rate on banknotes for selling was TL 1.8817 for US Dollar and TL 2.4677 for Euro on December 31, 2011.

Forecasts

Developments in Turkey's primary export markets and particularly in EU countries are expected to be influential on the course of economic activity. In conjunction with this factor, Turkey's economic growth is expected to lose pace. In addition, a possible decline in capital inflow into Turkey might limit the growth even further.

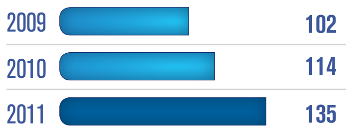
It is anticipated that domestic demand conditions will not exert an upward pressure on inflation, in line with the deceleration in economy. The CBRT is expected to structure the monetary policy in a manner to support domestic growth, once the high increase in annual inflation seen in the last quarter of 2011 is taken under control through other monetary policy tools. Along this line, no increases are expected in the policy rate in 2012, while it is believed that other policy tools will remain in active use depending on the developments in international markets.

Slowdown in domestic demand might also lead to a decrease in budget revenues. On the other hand, the expected decline in the Turkish Treasury's domestic debt service ratio is anticipated to facilitate budget expense control by way of alleviating the potential pressure on borrowing costs, and the budgetary discipline is expected to be maintained.

Sources: TurkSTAT, CBRT, Undersecretariat of Turkish Treasury

Developments in Turkey's primary export markets are expected to be influential on the course of economic activity.

Exports (USD billion)



Imports (USD billion)

An Overview of the Turkish Insurance Industry in 2011

Having shown 21.5% increase in 2011, the Turkish insurance industry is anticipated to register real growth also in the following years.

Total premium production grew above the inflation rate.

In 2011, the Turkish insurance market registered 21.5% growth in total premium production; surpassing the 13.6% expansion of 2010, this rise is considered as a positive development. On the other hand, against the backdrop of some negative signals from the world's major economies coupled with the economic crisis spreading particularly across the European Union area, the developments in the Turkish economy will be a defining factor in the growth of the sector also in the coming years.

Market shows a high premium concentration.

A substantial portion of life and non-life premium production is generated by a limited number of companies. 75% of premiums in the non-life segment are produced by the top 10 companies; more importantly, the top two companies generate more than 25% of the total premium production in this segment in which 39 companies actively operate. These facts lay bare the significant premium concentration, which becomes even more evident in the life segment where 25 companies operate; while 85% of the total premiums are produced by the top 10 companies, premium written by the top two companies account for 43% of total production.

Share of life insurance in total premiums went up and reached 15.6%.

On the basis of the overall sector, life insurance outgrew the sector's average as compared with the last year, while its share in total premiums also went up and reached 15.6%. The rise in life insurance premiums is expected to continue in the years ahead in parallel with the growing prevalence of retail bank loans, in particular.

Competition continues in Fire and Natural Catastrophes insurances.

Premiums in Fire and Natural Disaster insurances grew by 16.6%, with no significant change in its share in total premiums. The low increase in premiums in this branch is mainly the consequence of the persisting intense competition that has been adversely affecting the results of insurance companies.

Land Vehicles and Land Vehicles Liability are the most important branches in respect of their contribution to total production.

Land Vehicles and Land Vehicles Liability insurance are the two key branches in the market, in which nearly 40% of all premiums are generated. However, with respective high loss ratios of 83% and 86% combined with high agency commissions, these two branches have had a disruptive effect on the results of insurance companies for the past several years. Although the results have relatively improved year-on owing to the measures taken by the companies, no significant improvement is expected in loss ratios due to the excessive price-based competition going on.

In addition, the "Law no. 6111 on the Restructuring and Rescheduling of Certain Outstanding Public Debts and on Amendments and Revisions to the Law on Social Security and Public Health Insurance and to some other Laws and Governmental Decrees in Force of Law" that came into effect on February 25, 2011 stipulates that insurance companies will cede a certain proportion (up to 15%) of the premiums generated in this branch to the Social Security Institution, for the purpose of enabling the Social Security Institution to cover the healthcare costs incurred in relation to traffic accidents. Moreover, Provisional Article 1 in the Law sets forth that up to 20% of the amount stipulated to be ceded as above will be transferred to the Social Insurance Institution for a period of three years for healthcare services provided in conjunction with traffic accidents that occurred prior to the publication date of the Law. These transfers are anticipated to bear a negative impact on the loss ratio of the Motor Land Vehicles Liability branch.

Significant increase in Agriculture premium.

Constituting nearly 9% of total premiums, General Damages branch showed nearly 48% year-on increase. The key reasons behind this positive development included the increase in power plants and investment projects in the Engineering insurance, the extended scope of agriculture insurance provided to registered farmers by Tarsim (Agricultural Insurance Pool) and the inclusion of livestock insurance in the Agricultural insurance. However, the loss ratio in General Damages reached almost 50% due to higher frequency of losses in Machinery Breakdown and the extended coverage in Agriculture.

Premium Income of the Market *

Branches	2011 Premium Income (TL)	Share (%)	2010 Premium Income (TL)	Share (%)	Change (%)
Casualty	663,191,045	3.86	598,383,023	4.24	10.83
Health	1,999,536,383	11.64	1,705,491,699	12.07	17.24
Land Vehicles	3,787,911,906	22.06	3,116,553,873	22.06	21.54
Railway Vehicles	817,289	0.00	80,830	0.00	20.04
Air Vehicles	69,392,164	0.40	47,397,058	0.34	46.41
Sea Vehicles	122,273,303	0.71	107,866,781	0.76	13.36
Transport	359,042,763	2.09	298,641,085	2.11	20.23
Fire and Natural Disasters	2,310,264,966	13.45	1,979,817,594	14.01	16.69
General Damages	1,475,185,210	8.59	993,472,682	7.03	48.49
Land Vehicles Liability	2,974,445,725	17.32	2,544,954,031	18.01	16.88
Air Vehicles Liability	75,774,884	0.44	50,256,018	0.36	50.78
Sea Vehicles Liability	261,366	0.00	544,021	0.00	(51.96)
Public Liability	389,954,681	2.27	327,658,844	2.32	19.01
Credit	51,359,824	0.30	31,775,341	0.22	61.63
Fidelity Guarantees	12,296,530	0.07	16,452,876	0.12	(25.26)
Financial Losses	140,531,098	0.82	84,708,056	0.60	65.90
Legal Protection	52,653,354	0.31	43,349,341	0.31	21.46
Support	2,475,594	0.01	141,059	0.00	0.00
Total Non-Life	14,487,368,085	84.36	11,948,144,212	84.56	21.25
Life	2,685,686,668	15.64	2,181,250,027	15.44	23.13
General Total	17,173,051,753	100.00	14,129,394,239	100.00	21.54

* Based on the TSRŞB chart published on March 12, 2012 titled "Market Shares-01.01.2011-31.12.2011".

Loss ratio in Health insurance improved as compared with the previous year, owing to the actions taken by companies.

Health is another problematic branch for insurance companies. Premium production rose nearly by 17% year-on in this branch, which accounts for nearly 12% of the total premiums produce by Life and Non-Life segments. Although the loss ratio showed some improvement as compared with the previous year owing to the actions taken by companies, it is considered as a problematic branch from the standpoint of insurance companies, in view of the high agency commissions and loss ratio in the region of 80%.

Constituting nearly 9% of total premiums, General Damages branch showed nearly 48% year-on increase.

Marine insurance maintains a balanced premium increase.

Maintaining a balanced premium increase in the aftermath of the economic crisis, Marine insurance constitutes nearly 2% of total premium production. It remains a favorable branch for insurance companies with a year-on premium increase of 20% and a loss ratio of approximately 40%.

Demand for Liability insurance is growing.

Although its current share in total premium production is 2.3%, it is estimated that Liability insurance will steadily grow in the future in conjunction with the increasing demand for these policies. Premiums increased nearly by 19% on an annual basis, while the loss ratio was around 60%. This indicates that insurance companies need to particularly in the pricing of employer's liability policies.

An Overview of the Global Reinsurance Market In 2011

Economic losses from catastrophic events reached USD 400 billion and insured losses were in excess of USD 100 billion, making 2011 the second costliest year to the industry following 2005.

Natural disasters which occurred in 2011 not only affected insurance and reinsurance markets, but had serious effects on the world economy as well.

2011 was a year marked with historic catastrophe losses. These catastrophes particularly affected areas which were previously considered as "cold spots" and were either unmodeled or modeled inadequately.

In addition to the earthquakes in Japan and New Zealand, and floods in Thailand and Australia having a serious effect on the world economy, the US was hit by a series of tornado losses and Hurricane Irene. Economic losses from all these events reached USD 400 billion and insured losses were in excess of USD 100 billion, making 2011 the second costliest year to the industry following 2005.

The Tohuku Earthquake and the following tsunami is considered as the largest cat loss occurring outside the US.

Two of the most damaging earthquakes in recent history impacted New Zealand and Japan in the first quarter of 2011. Industry losses from the Tohuku Earthquake and the following tsunami are currently estimated to exceed USD 35 billion which made the event the largest cat loss occurring outside the US. On the other hand, New Zealand Earthquake in February 2011 devastated the country's second-largest city Christchurch producing an industry loss over USD 14 billion.

Floods which hit various regions of the world caused widespread property damage.

Queensland Floods in January and Cyclone Yasi in February affecting Australia and resulting around USD 4 billion insured losses were followed by the worst flooding in near history which hit Thailand during the second half of 2011. Manufacturing operations of many multinational companies in various industrial estates were severely disrupted by floodwaters. Although there is still large uncertainty about the potential cost of the flood, current estimates indicate around USD 10 to 20 billion insured losses.

Hurricane Irene in August was the first landfalling hurricane in the US in three years causing an insured loss over USD 4 billion. The impact of Irene combined with the large tornado losses experienced during April and May in the US resulted with a total industry loss exceeding USD 30 billion.

Copenhagen was also hit by flooding in July causing widespread property damage and an insured loss of around USD 1 billion.

While natural disasters lead to rate increases in loss affected areas, none of them alone was large enough to trigger an overall hard market.

It is expected that more than half of the insured losses from the catastrophes of 2011 will be borne by the reinsurance industry. While these events lead to rate increases in loss affected areas, none of them was large enough to trigger an overall hard market. However the combination of substantial losses with the ongoing economic turmoil, vendor model changes and the fragile capital base of some companies has finally halted the continuous reductions in rate levels over the past years even in non-affected regions and started a gradual hardening on a global scale.

It was observed during 2012 renewals that there was significant change in risk perceptions.

Although the losses in 2011 are still an earnings and not a capital issue for the majority of the industry and capital levels are only slightly below the levels at the start of the year, the continued decline in financial returns, stricter regulatory pressures and the possibility of the repeat of the frequency and quantum of losses experienced in 2011, resulted with significant changes in the perception of risk. Consequently many reinsurers have started to reconsider the benefits of diversification and were particularly concerned about their own protections. It was observed during 2012 renewals that the majority of the industry tended to shift capacity to more profitable territories and constrain their capacity to second and third tier catastrophe exposures, either controlling or limiting exposures by way of more detailed analysis of underlying exposures or more commonly sub limiting their exposures by territory and/or scope.

Major catastrophe model updates was an area of debate for the industry and led most players to consider the drivers of change in the new model versions in view of their own risk perception. Hence the new versions were an element in the renewals however the treatment of the model results varied from one reinsurer to another on the basis of their own adjustments and technical expertise.

Vendor model changes and the fragile capital base of some companies has finally halted the continuous reductions in rate levels over the past years even in non-affected regions and started a gradual hardening on a global scale.

Loss-free Catastrophe programs saw changes reflecting factors such as geography, exposure and model impacts as well as the market perception of original pricing.

In this context, there was variability in property rates across the world depending on factors such as geography, exposure change, losses and model impacts as well as the market perception of original pricing. Consequently loss-free catastrophe programs saw changes from flat (US regional, majority of Europe) to 35% (Australia and New Zealand, Asia Pacific, Middle East, Turkey) reflecting these factors. Loss-impacted programs were charged with increases ranging from 10% to 150% in relation with the loss experience of specific programs. Rates for loss-free risk programs generally remained stable with the exception of territories experiencing major catastrophe losses while loss impacted programs were rated reflecting the loss experience.

There was some tightening in pro rata terms and conditions such as introduction of Business Interruption conditions in Asia Pacific countries and China, introduction of event limits for natural catastrophes in Asia Pacific, Latin America and Middle East where restrictions on SRCC were also imposed following the political unrest in the area. There were some reductions on pro rata commissions in regions such as Middle East and Turkey in treaties with poor results.

Increased peak exposures and the changes in risk perceptions have led many reinsurers to purchase more cover at top end.

Model changes coupled with above average catastrophe losses and the global economic distress resulted with changes in retrocession structures of many market players. Increased peak exposures and the changes in risk perceptions have led many reinsurers to purchase more cover at top end and given the fact that there was limited supply at affordable costs there was a growing tendency for alternative risk transfer instruments such as adverse development covers and aggregate stop loss covers to provide capital relief for net retained business.

Although merger and acquisition activity started to pick up in 2010, the number of completed deals in 2011 remained 71, below 81 deals made in 2010, with the bulk of activity in small to middle-market areas. Given the low market valuations and economic uncertainty and volatility, there is a growing level of caution and due diligence activities from prospective buyers.

Challenging circumstances weakening capital adequacy of many companies led to a number of downgrades during 2011.

Challenging circumstances weakening capital adequacy of many companies led to a number of downgrades during 2011 with some being multiple notches. 14 European groups and 47% of US companies reviewed by AM Best during 2011 were downgraded while 29 European companies and 7 US companies were either downgraded or placed on negative watch by Standard and Poor's.

In view of the prevailing market conditions and diminishing investment returns, players are faced with various uncertainties and it is still unclear whether the markets will witness a prolonged hardening as expected.

Turkish Reinsurance Market and Milli Re in 2011

Milli Re increased its involvement in Catastrophe Excess of Loss treaties by nearly 16% on an annual basis.

Although there were no large insured losses arising from natural catastrophes in 2011 in Turkey, 2012 renewals were overshadowed by the economic crisis with negative effects gaining wider reach particularly across European Union countries. Insurance companies had difficulties especially in the placement of Fire-Engineering Catastrophe Excess of Loss reinsurance agreements which can be considered as part of their capital, owing to the relatively increased cost of reinsurance. In the context of the tough circumstances for insurance companies, Milli Re, being the only local reinsurer, increased its involvement in Catastrophe Excess of Loss reinsurance programs by nearly 16% on an annual basis.

Economic crisis had negative effects on the placement of surplus reinsurance agreements.

On the other hand, some insurance companies faced with certain challenges as compared to the previous year in the placement of surplus reinsurance agreements written on bouquet basis. The primary reasons for this situation included the negative effects of the price-based competition on the performance of treaties, the perception that the major earthquake is drawing near, and the corrosive effect of the increased frequency and the severity of losses upon treaties. In addition to this, the economic crisis bore negative effects on the placement of surplus reinsurance agreements and its impact was even more evident in the placement of Catastrophe Excess of Loss reinsurance agreements.

Insurance companies operating in the Turkish insurance market maintained their existing structures in reinsurance programs.

Risk Excess of Loss programs of local insurance companies remained unchanged, and companies maintained their existing structures in reinsurance programs. Milli Re increased its market share by 3.5% year-on to 25.69% on the basis of Estimated Premium Income. Furthermore, the number of proportional bouquets led by Milli Re increased to 16 last year.

54% of 2012 Estimated Premium Income for surplus reinsurance agreements originates from Fire treaties.

2012 Estimated Premium Income for surplus reinsurance agreements went up by 11% year-treaties and reached TL 1,355 billion; 54% of the premiums originated from Fire. The fact that nearly 70% of fire surplus treaty premiums is derived from earthquake coverage is a point that calls for special emphasis on technical pricing of fire risks. This development also points out to the extent of price competition in the market and the vital importance of Earthquake Tariff from the standpoint of reinsurers.

With a share of 24%, Engineering takes the second place in terms of the premium volume ceded to surplus reinsurance agreements. Engineering treaty premium is composed of sub-branches of Construction, Erection, Machinery Breakdown and Electronic Equipment and was reduced by 1% year-on, driven mainly by the transfer of certain risks that are supposed to be under the Machinery Breakdown to the Fire branch. Remaining surplus treaty premium is generated by Marine (Hull and Cargo Insurance) and Non-Motor Accident with respective shares of 10% and 12%. Non-Motor Accident also covers General Liability insurance that shows consistent development in our country.

Catastrophe Excess of Loss coverage purchases went up by 9% year-on-year and reached EUR 3.9 billion.

Placement of Catastrophe Excess of Loss treaties, which provide coverage for risk in the retention of Fire and Engineering Surplus reinsurance treaties, posed greater difficulties as compared with the previous years, owing to the concerns stirred by the economic crisis that is ongoing particularly in the European Union area, whose negative effects are expected to exacerbate even further; some companies even faced considerable shortfalls in the placement.

The amount of Catastrophe Excess of Loss coverage purchased was up by almost 9% year-on and reached EUR 3.9 billion, whereas the premium paid for this coverage increased to EUR 89 million, 4% higher than the 2010 figure. Despite the fact that Catastrophe Excess of Loss Programs are on the basis of Euro, and TL has depreciated against Euro, 9% growth in total coverage and the increase in PML to 6.68% indicate that Turkish companies were more cautious about earthquake risk in 2012.

Milli Re cut back its participation in Proportional Motor treaties and motor proportional treaty premiums represent 15% of total proportional treaty premiums.

Although Land Vehicles and Land Vehicles Liability insurance make up nearly 40% of total premiums produced by the industry in Life and Non-Life branches they stand out as branches with highly negative impact on the results of insurance companies, owing to their relatively higher loss ratios. The Company cut down its participation in these agreements so as to reduce the share of Land Vehicles treaties in estimated premium income for all Proportional reinsurance agreements from 39% in 2011 to 15% of 2012 Estimated Premium Income.

Milli Re participates in the reinsurance agreements of all companies in the market.

Milli Re is the only local reinsurer active in the Turkish insurance market; depending on the branches and types, the Company participates in all or a certain part of reinsurance agreements in almost every branch of all of the companies backed by local or foreign capital in the market. This positions the Company beyond and above a local insurer and endorses its international prestige and the trust held in its robust financial structure.

Premium for Catastrophe Excess of Loss coverage increased to EUR 89 million, 4% higher than the 2010 figure.

Milli Re Technical Results in 2011

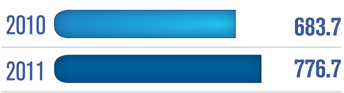
The share of premium income Milli Re generated by international business in total premium production went up to 22%.

Milli Re attained 16% growth year-on in premium production, and generated 78% of total premium by local and 22% on international business. The Company's local premiums rose by 13.5% and international premium by 25.5% on an annual basis.

International business shows a steady growth in its share in total premium production. This is driven mainly by the price-based competition, reduced involvement in branches such as Land Vehicles and Health from local market and prudent growth in the international book.

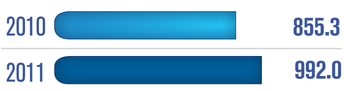
Further details on Milli Re's local and foreign acceptances are presented in the relevant sections of the report. The most remarkable point in terms of technical performance is the significantly higher negative result as compared with the previous year. This was due to the increased loss activity in local fire business and natural catastrophe losses through the international book all of which were retained in the Company's net account, as well as the significantly higher technical provisions that descended in our records for the first time which were calculated in accordance with the revised legislation.

Local Acceptances (TL mn)



Foreign Acceptances (TL mn)

Premium Income (TL mn)



Gross Premium Income and Breakdown of Branches (TL)

Branches	2010	Share (%)	2011	Share (%)	Change (%)
Casualty	13,648,776	1.63	16,325,714	1.68	19.61
Health	104,084,845	12.43	70,708,153	7.26	(32.0)
Land Vehicles	140,302,173	16.75	137,304,815	14.09	(2.14)
Railway Vehicles	-	-	-	-	-
Air Vehicles	1,146,179	0.14	692,224	0.07	(39.61)
Sea Vehicles	27,156,879	3.24	25,882,903	2.66	(4.69)
Transport	27,925,466	3.33	32,948,542	3.38	17.99
Fire and Natural Disasters	269,727,011	32.20	333,882,824	34.25	23.79
General Damages	158,393,566	18.91	244,702,151	25.11	54.49
Land Vehicles Liability	63,676,611	7.60	76,245,857	7.82	19.74
Air Vehicles Liability	2,432	-	-	-	-
Sea Vehicles Liability	51,404	0.01	39,718	0.00	(22.73)
Public Liability	29,126,129	3.48	32,587,765	3.34	11.88
Credit	251,901	0.03	246,253	0.03	(2.24)
Fidelity Guarantees	649,775	0.08	1,132,124	0.12	74.23
Financial Losses	801,899	0.10	1,103,347	0.11	37.59
Legal Protection	549,685	0.07	755,797	0.08	37.50
Total Non-Life	837,494,731	100.00	974,558,187	100.00	16.37
	2010	Share (%)	2011	Share (%)	Change (%)
Total Non-Life	837,494,731	97.92	974,558,187	98.24	16.37
Life	17,808,180	2.08	17,434,891	1.76	(2.10)
General Total	855,302,911	100.00	991,993,078	100.00	15.98

Gross Premium Income (TL)

Branches	2007	2008	2009	2010	2011
Casualty	14,611,415	13,109,950	11,985,669	13,648,776	16,325,714
Health	110,120,683	94,274,277	83,743,457	104,084,845	70,708,153
Land Vehicles	192,942,704	170,746,032	139,977,605	140,302,173	137,304,815
Railway Vehicles	-	-	-	-	-
Air Vehicles	359,156	193,802	394,792	1,146,179	692,224
Sea Vehicles	14,114,986	20,901,154	26,913,477	27,156,879	25,882,903
Transport	30,886,082	34,503,468	27,822,112	27,925,466	32,948,542
Fire and Natural Disasters	238,375,904	260,053,206	289,326,046	269,727,011	333,882,824
General Damages	117,953,980	130,493,216	131,490,270	158,393,566	244,702,151
Land Vehicles Liability	87,197,062	92,684,253	82,782,059	63,676,611	76,245,857
Air Vehicles Liability	13,007	10,301	16,290	2,432	-
Sea Vehicles Liability	-	-	545	51,404	39,718
Public Liability	11,978,208	13,144,808	14,240,747	29,126,129	32,587,765
Credit	110,822	174,769	485,776	251,901	246,253
Fidelity Guarantees	-	-	40,835	649,775	1,132,124
Financial Losses	1,658,920	2,959,282	1,456,291	801,899	1,103,347
Legal Protection	414,108	297,057	732,177	549,685	755,797
Total Non-Life	820,737,037	833,545,575	811,408,148	837,494,731	974,558,187
Life	17,461,553	15,516,687	12,214,317	17,808,180	17,434,891
General Total	838,198,590	849,062,262	823,622,465	855,302,911	991,993,078

International business shows a steady growth in its share in total premium production. This is driven mainly by the price-based competition, reduced involvement in branches such as Land Vehicles and Health from local market and prudent growth in the international book.

Technical Profitability (TL)

Branches	2007	2008	2009	2010	2011
Casualty	3,391,986	4,268,487	436,633	7,466,168	(4,254,284)
Health	(20,223,726)	(1,471,318)	(30,121,133)	(19,592,434)	(29,326,697)
Land Vehicles	(4,647,819)	9,468,787	(21,959,547)	(3,624,645)	(11,446,956)
Railway Vehicles	-	-	-	-	-
Air Vehicles	54,397	(318,237)	(514,452)	1,125,881	(882,321)
Sea Vehicles	218,854	(2,125,522)	(3,227,693)	(4,799,521)	(1,102,633)
Transport	6,527,493	(2,289,009)	7,315,775	20,089,184	6,447,198
Fire and Natural Disasters	22,199,341	43,830,079	57,305,254	20,137,996	(48,749,986)
General Damages	(3,695,089)	8,203,124	(2,466,224)	(13,846,404)	(28,734,583)
Land Vehicles Liability	(1,165,178)	(21,362,742)	(788,893)	995,074	(82,507,452)
Air Vehicles Liability	6,434	7,841	18,167	9,861	227
Sea Vehicles Liability	-	-	25	(149,635)	143,824
Public Liability	1,052,872	(1,464,999)	5,067,369	11,053,886	1,271,840
Credit	45,338	66,786	359,660	254,483	2,794
Fidelity Guarantees	-	-	628	3,967	(529,943)
Financial Losses	(1,489,199)	1,790,019	687,629	1,459,981	401,592
Legal Protection	172,055	247,914	439,982	584,076	581,197
Total Non-Life	2,447,759	38,851,210	12,553,180	21,167,918	(198,686,183)
Life	3,511,180	1,062,013	2,145,045	456,342	2,564,291
General Total	5,958,939	39,913,223	14,698,225	21,624,260	(196,121,892)

Technical Profitability Ratios (%)

	2007	2008	2009	2010	2011
Loss Ratio (Gross)	75	80	85	74	96
Expense Ratio (Gross)	23	14	26	25	24
Combined Ratio (Gross)	98	94	111	99	120
Loss Ratio (Net)	78	84	81	79	103
Expense Ratio (Net)	24	15	28	27	26
Combined Ratio (Net)	102	99	109	106	129

Local Acceptances

Milli Re increased its local premiums by 13.5% in 2011.

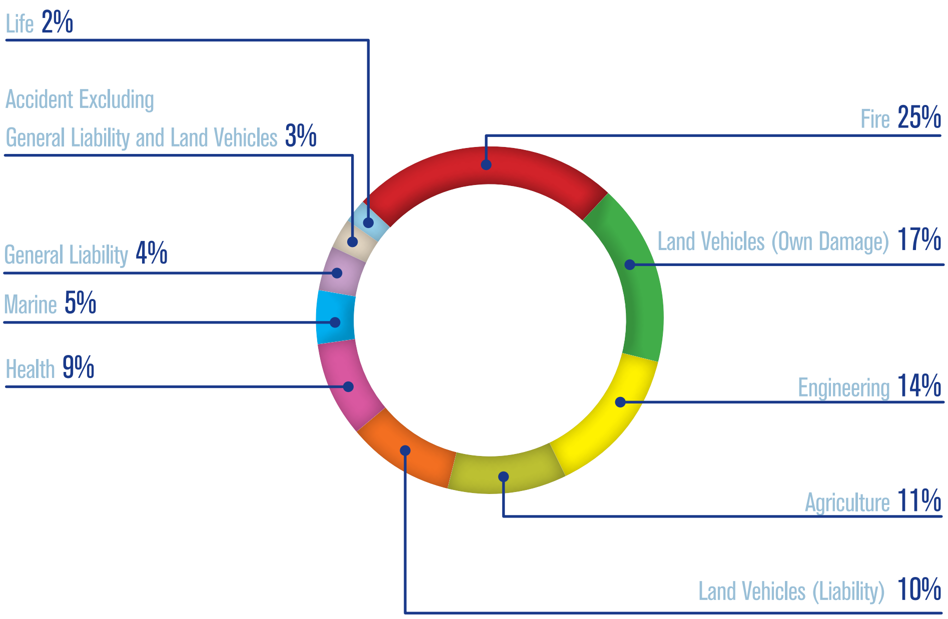
The Turkish insurance industry had increased premium production approximately by 21.5% by the end of 2011, a result that attested to the real growth attained by the sector. Milli Re, on the other hand, increased its local premiums by 13.5%. This was a result of higher retentions by insurance companies in Land Vehicles and Health branches, which make up 51% of Life and Non-life premium in conjunction with by the high loss ratios in these branches. An additional factor was the higher level of retentions in Fire and Engineering business as the result of increasing coinsurance application for large risks in the market.

A noteworthy development in the local premium portfolio is the increase in the volume of Agriculture business in total premium to 11% in 2011 from 4% in 2010, owing to the extended policy coverage and increased premiums in conjunction therewith, and the reduction of Health business, from 14% in 2010 to 9% in 2011 due to the Company's withdrawal from certain treaties.

In 2011, the share of premiums generated by local business continued to decrease and went down to 78%. The Company's continuing withdrawal from Land Vehicles and Health business that hold significant shares in its premium portfolio led to a relative reduction in the share of Local businesses to total premiums.

Local Acceptances	2007	2008	2009	2010	2011
Premium (TL)	800,373,721	741,479,994	659,431,076	683,741,546	776,680,082
Share in Total Premium (%)	95.5	87.3	80.1	79.9	78.3

Breakdown of Local Premium by Branches



Fire

There was 9.6% increase in local Fire premium in 2011, and the share of Fire business in local premiums changed from 26% in 2010 to 25% in 2011.

The reduction in the share of local Fire premium is due to various factors including the price-based competition in the local market, greater number of risks not subject to the earthquake tariff, co-insurance of major risks by a larger number of companies which results in higher retentions in the market, and the large volume premiums from international business. Therefore, the share of local production in total Fire premiums generated by Milli Re declined to 58% in 2011 from 66% in 2010.

There was no significant change in the Company's profitability in local business from this branch.

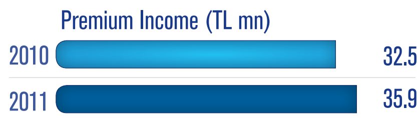
Profitability Ratios in Fire	2010	2011
Gross		
Loss Ratio (%)	51	48
Expense Ratio (%)	28	24
Combined Ratio (%)	79	72
Net		
Loss Ratio (%)	60	56
Expense Ratio (%)	39	29
Combined Ratio (%)	99	85
Technical Profit/Loss (TL mn)	26.2	27.0

Marine

Local Marine premiums that consist of Cargo and Hull (Water Vehicles) insurance, grew 10.4% year-on-year. The share of the Marine branch in the Company's total local premium production remained unchanged from last year's 5%.

The rise in loss ratio in the branch that resulted from the change in provisions for outstanding claims had a negative technical profitability.

Local premium written in Marine corresponded to 61% of the total premium in this branch, which is slightly higher than the previous year's 59%.



Profitability Ratios in Marine	2010	2011
Gross		
Loss Ratio (%)	25	57
Expense Ratio (%)	28	29
Combined Ratio (%)	53	86
Net		
Loss Ratio (%)	27	71
Expense Ratio (%)	34	34
Combined Ratio (%)	61	105
Technical Profit/Loss (TL mn)	14.8	2.8

Local Acceptances

Engineering

Although premium production in this branch that constitutes 14% of Milli Re's local premium portfolio showed 22% rise year-on owing to the increase particularly in energy, infrastructure and investment projects, this ratio lagged significantly behind the 35% premium growth attained by the overall sector. This was a result of higher retentions kept by companies in connection with lower insured sums in Machinery Breakdown and Electronic Equipment insurances that make up approximately 63% of Engineering insurance premiums. The same applies to the Construction and Erection insurance risks; companies are able to offer coverage by coinsuring risks among themselves which, in turn, increases the retention in the market.

Higher technical loss in this branch as compared with the previous year was driven mainly by the technical provisions that were included in our records for the first time, which in turn aggravated the negative effect of the Provision for Unexpired Risks.

Nearly 88% of the Company's total Engineering premium was from local acceptances, as was the case in 2010.

Profitability Ratios in Engineering	2010	2011
Gross		
Loss Ratio (%)	81	79
Expense Ratio (%)	28	25
Combined Ratio (%)	109	104
Net		
Loss Ratio (%)	104	104
Expense Ratio (%)	36	31
Combined Ratio (%)	140	135
Technical Profit/Loss (TL mn)	(25.1)	(31.3)

Land Vehicles (Own Damage)

22% of total premium production of the market was from this branch as at year-end 2011. Going on for a very long time, this is also an issue that calls for some radical measures in the market owing to the high loss ratios. As for Land Vehicles Liability Insurance the Company continues to gradually reduce its involvement in treaties of this branch which makes up 17% of the local premium portfolio.

The high loss ratio of this branch and technical loss posted in the reporting period were driven mainly by the negative effect of the change in the provisions for outstanding claims.

The share of local premium in the Company's total premium increased from 90% in 2010 to 96% in 2011, a result of the 65% decline in international premiums.

During 2012 reinsurance renewals, our Company significantly cut down its participation in treaties in this branch due to the persistent high loss ratios.

Profitability Ratios in Land Vehicles (Own Damage)	2010	2011
Gross		
Loss Ratio (%)	81	91
Expense Ratio (%)	17	17
Combined Ratio (%)	98	108
Net		
Loss Ratio (%)	82	90
Expense Ratio (%)	17	17
Combined Ratio (%)	99	107
Technical Profit/Loss (TL mn)	4.8	(6.3)

Land Vehicles Liability

Technical loss of TL 82.2 million, for this branch was higher than the premiums written. This was mainly due to the loss ratio that nearly doubling as the result of increased technical provisions in this branch, coupled with the significantly higher Provision for Unexpired Risks.

Although Land Vehicles Liability insurance showed partial improvement on the back of some measures taken by companies, the branch represents an important problem for the sector, as does the Land Vehicles (own damage) branch.

In 2012 reinsurance renewals, our Company significantly cut down its participation in agreements in this branch that makes up 10% of its local premium portfolio, in view of the continuing high loss ratios.

Profitability Ratios in Land Vehicles Liability	2010	2011
Gross		
Loss Ratio (%)	88	164
Expense Ratio (%)	16	20
Combined Ratio (%)	104	184
Net		
Loss Ratio (%)	88	164
Expense Ratio (%)	16	20
Combined Ratio (%)	104	184
Technical Profit/Loss (TL mn)	0.7	(82.2)

General Liability

General Liability insurance covers all Liability branches, apart from Land Vehicles Liability and Compulsory Personal Accident Insurance for busses. As in the previous year, this branch made up 4% of Milli Re's total local premium production.

There was a significant decline in technical profit in local business that were accountable for 93% of the Company's premiums written in the General Liability branch as a result of the increased technical provisions; hence, technical profit went down to TL 0.2 million.

Profitability Ratios in General Liability	2010	2011
Gross		
Loss Ratio (%)	47	72
Expense Ratio (%)	22	32
Combined Ratio (%)	69	104
Net		
Loss Ratio (%)	50	73
Expense Ratio (%)	22	32
Combined Ratio (%)	72	105
Technical Profit/Loss (TL mn)	10.8	0.2

Local Acceptances

Accident Excluding General Liability and Land Vehicles

A substantial portion of premium production in this branch is derived from Personal Accident and Bus Compulsory Personal Accident insurances for busses. As a common practice among insurers in recent years, Theft and Plate Glass covers are given as a part of Comprehensive Fire Policies, therefore premiums could not be taken into account in this branch.

Maintaining the previous year's share of 3% in total local premium production, this branch showed nearly 9% increase in premiums. Loss ratio went up by 50% year-on-year as a result of the approximately 47% increase in Provisions for Outstanding Claims, which resulted in technical loss.

Milli Re generated nearly 56% of its premium production in this branch from the local market.

Profitability Ratios in Accident Excluding General Liability and Land Vehicles	2010	2011
Gross		
Loss Ratio (%)	57	85
Expense Ratio (%)	38	37
Combined Ratio (%)	95	122
Net		
Loss Ratio (%)	54	86
Expense Ratio (%)	38	37
Combined Ratio (%)	92	123
Technical Profit/Loss (TL mn)	6.8	(2.8)

Agriculture

Agriculture insurance displays a very rapid growth in Turkey owing to the Agricultural Insurance Pool (TARSİM). The insurance market secured significant rises in premiums in connection with the Government Subsidized Crop and Government Subsidized Livestock policies in 2011.

The premiums written by the Company in Agriculture boomed owing to the shift of the accounting period, combined with the extended scope of cover. The share of branch in total local premiums went up from 4% in 2010 to 11% in 2011. Local market increased its share in the Company's premium production in Agriculture branch from 79% to 90%.

Despite the significantly increased premiums, technical profitability in this branch did not show a rise due to the higher Provisions for Unearned Premiums and technical provisions, whereas there was a decrease in the combined ratio.

Profitability Ratios in Agriculture	2010	2011
Gross		
Loss Ratio (%)	73	68
Expense Ratio (%)	41	31
Combined Ratio (%)	114	99
Net		
Loss Ratio (%)	72	70
Expense Ratio (%)	41	31
Combined Ratio (%)	113	101
Technical Profit/Loss (TL mn)	5.0	5.0

Health

Milli Re gradually cuts back its participation in reinsurance agreements in Health, which represents one of the most problematic branches in the sector due to the high loss ratio and chronic technical loss. Premiums written in this branch showed 29% reduction in the reporting period, while the share of the branch in the Company's total local premium production went down from 14% to 9% in 2011.

The Company's pruning policy to cut back its share in this branch resulted in significant declines in the amounts of premiums and loss payments, whereas there was a rise in the Provisions for Outstanding Claims particularly due to the effect of the IBNR. This factor negatively affected the loss ratio, and in turn, the technical results of the branch.

The Company generated 95% of its premium production in this branch from the local market.

In 2012 reinsurance renewals, the Company significantly decreased its participation in agreements in this branch due to the ongoing high loss ratios.

Profitability Ratios in Health	2010	2011
Gross		
Loss Ratio (%)	114	134
Expense Ratio (%)	6	4
Combined Ratio (%)	120	138
Net		
Loss Ratio (%)	114	134
Expense Ratio (%)	6	4
Combined Ratio (%)	120	138
Technical Profit/Loss (TL mn)	(19.0)	(27.6)

Life

While 16% of the total premium production in the insurance industry is derived from Life insurances, Milli Re's premiums account for 2% of the portfolio. This is due to the fact that cessions do not cover the endowment savings life policies.

The Company's premium production in Life business was derived from the local market in its entirety and remained almost flat with the figure of the previous year. Due to the low frequency of cessions to reinsurance, loss ratios and technical profitability of the Company in the Life branch tends to fluctuate from year to year.

Profitability Ratios in Life	2010	2011
Gross		
Loss Ratio (%)	64	40
Expense Ratio (%)	36	46
Combined Ratio (%)	100	86
Net		
Loss Ratio (%)	55	41
Expense Ratio (%)	38	48
Combined Ratio (%)	93	89
Technical Profit/Loss (TL mn)	0.5	2.6

Foreign Acceptances

A greater portion of the developing foreign portfolio is made up of acceptances from African and Asian countries, which fall under the scope of the FAIR Reinsurance Pool that has been managed by Milli Re since its establishment in 1974.

Milli Re started playing an even more active role in the international reinsurance markets, particularly since 2006, for the purpose of maintaining the existing premium volume and improving technical profitability by attaining diversification in its portfolio.

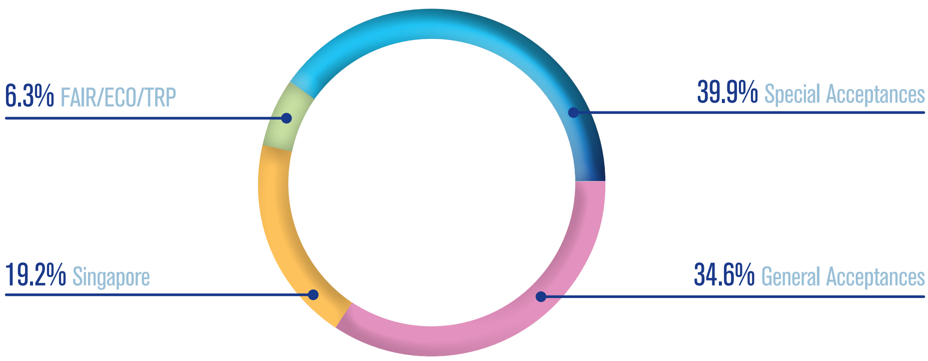
A greater portion of the developing foreign portfolio is made up of acceptances from African and Asian countries, which fall under the scope of the FAIR Reinsurance Pool that has been managed by Milli Re since its establishment in 1974.

In addition to this, by providing reinsurance capacity to select Continental European and Lloyd's market players most of which already participate in the retrocession programs of many companies, Milli Re has further enhanced the diversification of the international portfolio. Similarly, Milli Re Singapore Branch, which actively started accepting business in 2008, continues to work efficiently in the Asia-Pacific a region that presents significant potential.

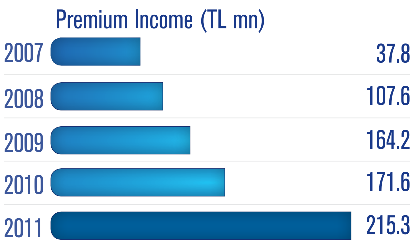
Overseas businesses underwritten by Milli Re are categorized under four main groups:

- Business from emerging markets (General Acceptances)
- Business from developed markets (Special Acceptances)
- Singapore Branch business
- FAIR/ECO/TRP business

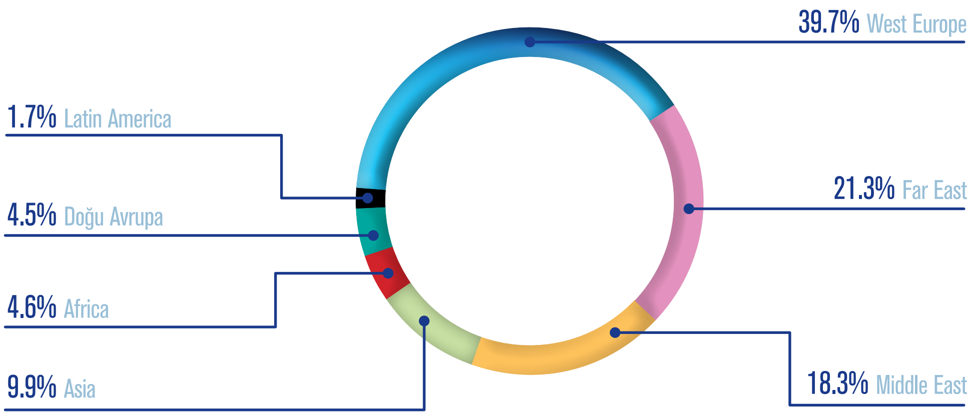
Split of International Premium by Source of Production



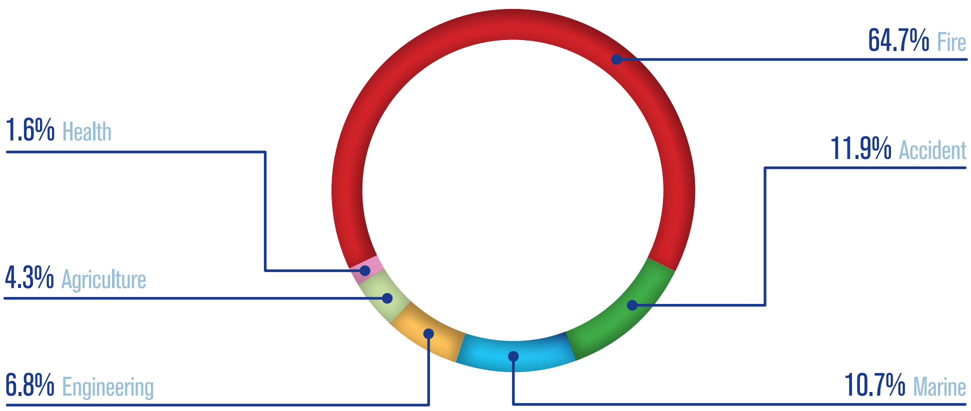
Foreign Acceptances	2007	2008	2009	2010	2011
Premium (TL)	37,824,869	107,582,268	164,191,389	171,561,365	215,312,996
Share in Total Premium (%)	4.5	12.7	19.9	20.1	21.7



Geographic Breakdown of Foreign Acceptances by Locations of Ceding Companies



Breakdown of Premiums of Foreign Acceptances by Branches



Common characteristics of emerging markets and developments in these markets

Holding an important place within Milli Re's international portfolio, emerging markets share some common characteristics including rapid economic growth, increasing investments in infrastructure, low insurance penetration and density ratios, significant share non-life insurances have in the portfolios of companies, and excessive competition.

Major common characteristics on the reinsurance front of the markets include the low retention ratios of insurance companies, widespread use of proportional reinsurance methods, and the constant growth in reinsurance capacity. Some characteristics and developments concerning various emerging markets in 2011 are presented below:

Middle East: Commonly referred to as the Arab Spring, the wave of uprisings was felt in the Middle East Region, although at a lesser extent than in North Africa. While these events did not result shrinkage in reinsurance capacity, reinsurers introduced "event limits" particularly for SRCC and began monitoring their liabilities in a more technical manner. In addition to that, the cyclones that occur almost every year in Oman and the floods that took place in Saudi Arabia showed that the region is not immune from catastrophic losses. This has obliged reinsurers to take some significant action in relation to their treaty programs affected by these losses, such as the introduction of event limits, reduction of commission rates, and enforcement of Common Account XL Programs for these losses exclusively.

Rates below technical levels resulting from the negative effect of the economic crisis and the Arab Spring on the markets, combined with competition, bear an adverse impact on companies' premium productions. This is balanced through health business that is becoming a compulsory insurance branch across the Middle East and the constantly increasing life businesses.

North Africa: The tendency in the North African markets to diversify the panel of reinsurers in recent years and to give smaller shares to a greater number of reinsurers continued in 2011. The most noteworthy development in this region was the markets' response to uprising incidents at the onset of 2011. Reinsurers adopted effective measures in Tunisia, Egypt and Libya where these events were most strongly experienced. Although varying from one country to the other, these measures consisted of the following in general:

- Incorporation of SRCC in the policy with additional premium,
- Implementation of loss limits on sums insured,
- Introduction of "event limits" for SRCC in treaties,
- Reduction of commission and profit commissions,
- Termination of loss and premium reserve practice.

Eastern Europe/Russia: Majority of the shares in the insurance companies in Eastern European countries continued to be acquired by Western Europe's major insurance/reinsurance groups, which results in parent groups combining reinsurance programs of acquired companies under their own group programs. In addition, there were difficulties in the placements of multi-territory retrocession programs of these major groups as a result of the catastrophes that followed one another, which led to significant increases in the prices of such treaties.

There were no significant losses in the Russian market in 2011, resulting modest rate decreases in January 2012 renewals. The renewals have been completed smoothly.

Far East: 3 of the top 10 non-life insurance markets in the World are located here. They are Japan, China and South Korea. The region's insurance markets continue to grow and this growth is led by China.

Developed markets are seeing continued consolidation of insurance players through mergers and acquisition while developing markets are fragmented with many companies exacerbating the already competitive market environment.

The perception of non-CAT exposed territories has been questioned with the occurrence of the Thailand floods during the second half of 2011.The estimated insured loss range between USD 10 billion and USD 20 billion. This is the costliest insured loss event in South East Asia's history and a top 10 loss event in the world in the last 30 years. This resulted with the exclusion of natural perils from Thailand's proportional treaties and widespread implementation of natural peril Event Limits within treaties in the region.

Japan experienced an offshore quake in March 2011, which was the fifth largest worldwide since records began, resulting in tsunamis that reached the entire Pacific Rim. The insured loss estimated ranged between USD 20 billion and USD 45 billion. As a result, the coverage of flood and earthquake in insurance policies will be revisited coupled with the rethinking of the need for business interruption covers and supply–chain issues.

Due to the region's economic growth and the greater insurance awareness from the unfortunate catastrophic events, the sustained increase in the demand for insurance and reinsurance is expected in the foreseeable future.

In accordance with the new Uniform Chart of Accounts for the Insurance Industry, which came into effect on January 1, 2005, a portion of the financial income and expense items for the year 2011 was transferred to the technical accounts for the related branches. Detailed information on this implementation is presented in the section entitled "Notes to the Financial Statements for 2011" of this Annual Report.

When the transfer mentioned above is not taken into account, in 2011;

- although the invested amount by our Company showed a decline, financial income was only marginally reduced by 1.8% year-on-year to TL 156.1 million. This was due to increased interest and exchange rates, which resulted from the negative developments in financial markets,

- financial expenses went down by 19.3% to TL 28.9 million, in connection with the Company's reduced tax obligations that resulted from the loss for the period the Company posted,

- general expenses grew by 0.8% year-on-year and reached TL 42.1 million as a result of the overhead costs that remained unchanged on an annual basis.

At the bottom line, Milli Re's financial profit before transfer in 2011 went up by 4.6% as compared with the 2010 figure and stood at TL 85 million.

Milli Re's financial profit before transfer in 2011 went up by 4.6% as compared with the 2010 figure and stood at TL 85 million.

Financial Results (TL mn)*	2010	2011	Change (%)
Financial Income	158.9	156.1	(1.8)
Financial Expenses	35.8	28.9	(19.3)
General Expenses	41.8	42.1	0.8
Financial Profit	81.3	85.0	4.6

* The distribution according to the regulation mentioned above is not taken into consideration.

Corporate Social Responsibility

Considering social responsibility projects as an effort to create positive impact for the insurance industry and the community, Milli Re undertakes such duties particularly in the fields of education, culture, art and sport, and demonstrates its sense of social responsibility in the most effective manner through concrete projects and sponsorships.

The Milli Re Art Gallery

The Milli Re Art Gallery is a pioneering institutional gallery set up within the framework of a corporate gallery management approach and widely known for its exhibitions and publications.

The story of the Milli Re Art Gallery started in 1994 when Milli Re has reserved a section of its business complex in Teşvikiye for cultural activities, and set aside room for a library, an auditorium and a gallery in this section.

During the past eighteen years, the Milli Re Art Gallery has organized nearly 150 exhibitions, all of which were well received in art circles and followed with interest. The gallery has published more than one hundred books and catalogues with texts by famous Turkish and foreign authors and art critics.

The exhibitions put on display at the Milli Re Art Gallery also travel to other countries such as Germany, Slovenia, Bosnia-Herzegovina, Georgia and Finland. Besides the “Rural Architecture in the Eastern Black Sea Region” exhibition displayed at many universities and international museums both in Turkey and abroad since 2005, Mylasa Labraunda/Milas Çomakdağ Exhibition receives invitations from major museums and universities abroad.

All details on exhibitions and publications are available on www.millireasuranssanatgalerisi.com.

Milli Re Chamber Orchestra

The Milli Re Chamber Orchestra, which is constituted of artists most of whom also pursue solo music careers, was established in 1996.

Having performed its first concert on April 10, 1996, the Milli Re Chamber Orchestra has organized a number of successful concerts since its foundation with famous conductors and musicians from Turkey and abroad.

Bringing universal polyphonic music, which enriches our cultural life, to music-lovers through concerts and recitals, the Milli Re Chamber Orchestra performs at the concert hall in the Milli Re building from September through May every year. In addition to the regularly performed concerts, the Orchestra takes part in various national and international festivals. The Milli Re Chamber Orchestra also released two CDs, titled “Romantic Era Strings Music” and “Şensoy Plays Tura”.

Continuing to extend support to art through sponsorship of the 34th, 36th and 38th Istanbul Music Festivals, held in 2006, 2008 and 2010 respectively, Milli Re will be a sponsor of the 40th İstanbul Music Festival that will be held in 2012.

Miltaş Sports Complex

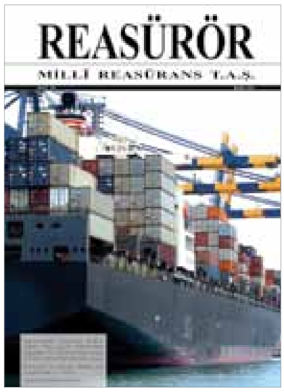
The Miltaş Sports Complex has been serving the insurance sector since 1986 with its facilities in various sports, particularly tennis. The International Insurance Tennis Tournament has been held every June at this Complex since 1986, providing a unique environment for local and foreign reinsurers and brokers. In addition to tennis and basketball courses organized every year for youngsters, private tennis lessons are available for adults in the Complex.

Milli Re Library

The Milli Re Library is a specialized library in which publications, periodicals and other materials concerning the insurance industry and related topics are collected, organized and put to the service of users under a modern information and document management approach.

Milli Re Library is the sector's most extensive library in terms of books and periodicals. The library also supports the libraries of Insurance Vocational Schools of Higher Education, which were established or are in the process of being established in Turkey, by sending books and periodicals.

The Library is open from 09:00 until 12:00 and from 13:00 until 17:00 hours on weekdays, and the catalogues of available publications can be accessed at www.kutuphane.millire.com.



Reasürör Magazine

Quarterly published since 1991, Reasürör Magazine provides fully academic content including compilations, translations, interviews, and statistical information in a variety of branches. Reasürör Magazine serves as a valuable scientific resource for use by the industry employees and students pursuing their studies at various levels in insurance education.

All issues of the Reasürör Magazine can be accessed at the address www.millire.com.

Turkish Insurance Institute Foundation (TII)

The Turkish Insurance Institute Foundation (TII) was established jointly by Milli Re and the Association of Turkish Insurance and Reinsurance Companies on May 29, 1970. The purpose of the TII is to work to further the penetration and development of insurance in Turkey, advance the insurance business, train staff for the insurance sector, identify and review economic, legal and technical matters and issues in all insurance branches including social insurance, and help the Turkish insurance industry be highly positioned in economic and social life and development.

Having attached great importance to education at all times, Milli Re has shown extensive efforts to provide material and moral support to TII's training activities, and will continue to do so in the future.

Having offered training service to more than 30% of the Turkish insurance industry employees since its foundation, TII organizes short-term training programs, training programs on legislation, and company training in various topics. In addition to the "Basic Insurance Training Program", which is a long-term insurance training course opened annually since 1970, TII also organizes "Advanced Insurance Training Programs".

Within the frame of the "Compulsory Training for Insurance Agents Technical Personnel" co-organized with TOBB (The Union of Chambers and Commodity Exchanges of Turkey) in 2009, the TII provided training to 35,000 agents and 5,000 bank employees via 70 trainers in 18 provinces. Furthermore, the TII signed a protocol on September 22, 2010 with the Vocational Qualifications Authority established by the Ministry of Labor and Social Security with the objective of setting up and running the National Vocational Qualification System aligned with the EU. The protocol is aimed at establishing professional standards and vocational qualifications in the Turkish insurance sector. In parallel with this effort, TII became one of the eight institutions from European countries to be selected to the Committee for Recognition of European Insurance Sector Qualifications formed by Eficert (European Financial Certification Organization).

Besides being an active member of Eficert, the TII collaborates with the Federation of Afro-Asian Insurers and Reinsurers (FAIR), Institute for Global Insurance Education (IGIE) and the Chartered Insurance Institute (CII).

Based on its commitment to social responsibility, the TII held 26 "Workshops for Improving the Quality of Insurance Education" and 6 "Raising Insurance Awareness in Society" seminars at universities over the past four years. In addition, the TII creates sectoral data and makes them available and accessible, in an effort to create resources for academic studies in insurance and contribute to the advancement of the sector.

2011 Annual Report Compliance Opinion

We hereby represent that Milli Re 2011 Annual Report issued for its 83rd year of operation has been drawn up in line with the principles and procedures enforced by the "Regulation on the Financial Structures of Insurance, Reinsurance and Pension Companies" published in the Official Gazette issue 26606 dated 07 August 2007 by the Undersecretariat of Turkish Treasury.

20 February 2012

Şule SOYLU
Group Manager

Kemal ÇUHACI
Assistant General Manager

Hasan Hulki YALÇIN
General Manager

Mahmut MAGEMİZOĞLU
Chairman of the Board of Directors

Management and Corporate Governance

Board of Directors and Statutory Auditors

1 Mahmut MAGEMİZOĞLU

Chairman

Mahmut Magemizoğlu is a graduate of Middle East Technical University, Faculty of Administrative Sciences, Department of Business Administration. He holds a master's degree in investment analysis from the University of Stirling (UK). Mahmut Magemizoğlu began his career at İşbank in 1982 on the Board of Inspectors and served in a number of the Bank's units. He has been functioning as Deputy Chief Executive of İşbank since his appointment on 18 May 2005. Besides his duty as Chairman in Anadolu Hayat Emeklilik A.Ş., Mahmut Magemizoğlu has been the Chairman of the Board of Directors at Milli Re since 29 April 2011 and also heads the Corporate Governance Committee.

2 Cahit NOMER

Vice Chairman

Cahit Nomer holds a degree in Law from Istanbul University. He began his career at Milli Re, serving in various capacities at the company and also pursued professional studies in Switzerland and the UK. 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 24 years altogether. Appointed as the General Manager on 21 January 1981, Cahit Nomer served in this position until 16 January 2009, at which date he was elected as Vice Chairman of the Board of Directors.

3 Atty. Nail GÜRMAN

Director

Atty. Nail Gürman holds a degree in Law from Ankara University. He has offered service to many prominent companies and banks as a legal practitioner and is working as an independent lawyer in Ankara. Elected to a seat on İşbank's Board of Directors in 2003 and 2005, Atty. Nail Gürman has been a member of the Board of Directors at Milli Re since 30 April 2008.

4 İsmet ATALAY

Director

İsmet Atalay graduated from the Faculty of Law, İstanbul University and he started his professional career as an independent lawyer in Kars and served as Kars Provincial Chairman of Republican People's Party (CHP) for 10 years. He entered to the Turkish Parliament (TBMM) as a representative of Kars in 1977, of Ardahan in 1995 and of İstanbul in 2002. In CHP, he served as a member of the Group Board, the General Administrative Committee, and the Central Executive Committee, and as a General Accountant. Served as a member of the Board of Directors of İşbank between 2008-2010, İsmet Atalay has been a member of the Board of Directors at Milli Re since 29 April 2011.

5 Hülya ALTAY

Director

Hülya Altay graduated from Ankara University, Faculty of Political Sciences, and joined İşbank in 1982 as an Assistant Economics Specialist. After serving in a number of the Bank's units and branches, she has been appointed as Deputy Chief Executive on 2004 where she served until 2011. Functioned as the Chairman of İş Portföy Yönetim A.Ş., Ms. Altay has been a member of the Board of Directors at Milli Re since 29 April 2011.

6 Emre DURANLI
Director

Emre Duranlı holds a degree in Management from Hacettepe University. He started his career as an Assistant Inspector in İşbank's Board of Inspectors. Currently the Insurance and Capital Market Unit Manager in the Equity Participations Department at İşbank, he serves as a member of the Board of Directors in Anadolu Anonim Türk Sigorta Şirketi, Anadolu Hayat Emeklilik, İş Yatırım Menkul Değerler A.Ş., İş Yatırım Ortaklığı, Avea İletişim Hizmetleri A.Ş., İş Girişim Sermayesi, İş Portföy Yönetimi, Yatırım Finansman Menkul Değerler A.Ş. and Varlık Yönetimi A.Ş. He has been functioning as a member of the Board of Directors at Milli Re since 24 March 2008. He also serves as a member of Corporate Governance Committee and as Board Member responsible of Internal Systems.

7 Hasan Hulki YALÇIN
Director and General Manager

Hasan Hulki Yalçın holds a degree in Economics from the Middle East Technical University and a Master's Degree in International Banking and Finance from the University of Birmingham in England. After serving in various positions and capacities with İşbank for fourteen years, he joined Milli Re in 2003 and subsequently took part in a number of professional training programs abroad. He has been appointed as a member of Board of Directors and General Manager on 16 January 2009. Hasan Hulki Yalçın is also serving as a member of Board of Directors in the Association of the Insurance and Reinsurance Companies of Turkey and in Anadolu Anonim Türk Sigorta Şirketi.

8 Erdal AKGÜL
Statutory Auditor

Erdal Akgül got his degree in finance from Ankara University, Faculty of Political Sciences in 1995. He joined İşbank the same year as an Assistant Inspector on the Board of Inspectors, and was appointed as Assistant Manager to Commercial Credits Allocation Department in 2004. Promoted to Unit Manager in the same department in 2008 and appointed to Gebze Commercial Branch Management in 02 May 2011, Erdal Akgül has been serving as a statutory auditor at Milli Re since 26 March 2010.

9 Zeki DAVUT
Statutory Auditor

He holds a degree in business administration from Bilkent University and completed the international master of business administration program at the University of San Diego. Having joined İşbank in 1999 as an Assistant Inspector, Mr. Davut has been appointed as an Assistant Manager Telecommunications Division under the Equity Participations Department in 2008, a position he still holds. Functioning as a statutory auditor in various companies, Zeki Davut has been serving as a statutory auditor of Milli Re since 16 August 2011.

Participation of the Members of the Board of Directors in Meetings during the Fiscal Period

The company's Board of Directors convenes as and when necessitated by the company's business affairs and upon the Chairman's invitation, with the participation of half of the total number of directors on the Board plus one. Meeting agendas are drawn up in line with the proposals of the General Management. During the meetings, various topics which are not covered in the agenda but raised by the members are also discussed. Meeting agenda letters and files relating to the agenda items are sent to all Board members 7 days in advance of the meeting date.

The Board of Directors met 18 times during 2011, with all members attending seventeen of these meetings, whereas one member and statutory auditors were excused from only one meeting.

Fahriye ÖZGEN
Reporter of the Board of Directors

Senior Management


1


2


3

1 Hasan Hulki YALÇIN

Director and General Manager

Please see Board of Directors and Statutory Auditors page for Mr. Yalçın's CV.

2 Barbaros YALÇIN

Assistant General Manager

Barbaros Yalçın holds a degree in Law from Istanbul University and began his career at Milli Re in the Fire Department. He has pursued professional studies in Switzerland and the UK. He has been appointed as Assistant General Manager on 01 September 1988 and also serves as the Vice President of the Turkish Earthquake Foundation and of the Turkish Insurance Institute Foundation and as the President of Fire Insurance Study and Research Committee under the Association of the Insurance and Reinsurance Companies of Turkey.

3 Hüseyin YUNAK

Assistant General Manager

Hüseyin Yunak holds a degree in Business Administration from Istanbul University and began his career in insurance with Milli Re in 1980. He studied Marine Insurance abroad and served as Manager of Marine Department and Coordinator of TCIP. He is currently Assistant General Manager responsible for Technical Affairs. He is also the President of the Marine Insurance Study and Research Committee under the Association of the Insurance and Reinsurance Companies of Turkey, the Board Member of Turkish Lloyd Foundation, and a lecturer at the Turkish Insurance Institute. He has been appointed as Assistant General Manager on 01 March 2003.

4 Kemal ÇUHACI

Assistant General Manager

Mr. Çuhacı graduated with a B.A. in Political Science from Ankara University and started his business career in Milli Re's Marine Department in 1986. He attended the diploma courses in Chartered Insurance Institute in the UK in 1987 and was awarded the title of 'Associate' in 1988. During his employment, he participated in various seminars and conferences in the UK and Switzerland. He has been appointed as Assistant General Manager on 01 September 2011.

5 Özlem CİVAN

Assistant General Manager

Having completed her secondary and high school education at Robert College, Özlem Civan graduated with a B.A. degree in Business Administration in English from the Faculty of Business Administration at Istanbul University. Between 1990 and 1993, she worked in the Treasury and Fund Management departments of several banks, embarking on her career in the insurance sector in 1994 at the Reinsurance Department of Güneş Sigorta. Leaving her position as Group Manager in charge of Reinsurance, Casualty and Credit Insurance in September 2006, Ms. Civan joined Milli Re the same year. She has participated in a number of training programs and seminars on insurance and reinsurance, organized by leading international reinsurance and brokerage companies. Özlem Civan has been appointed as Assistant General Manager on 01 September 2011.

6 Şule SOYLU

Group Manager

Şule Soylu graduated with a B.A. degree in Business Administration from the Faculty of Economic and Administrative Sciences at Anadolu University and received her master's degree in Financial Institutions from İstanbul University Institute of Business Economy. She began her professional career in Milli Re in 1990 and finished cum laude the Accounting Branch of the Turkish Insurance Institute. Currently serving as a member of the Financial and Accounting Committee of the Association of Insurance and Reinsurance Companies of Turkey (TSRŞB), Şule Soylu has been appointed as Group Manager on 01 September 2011.

Internal Systems Managers

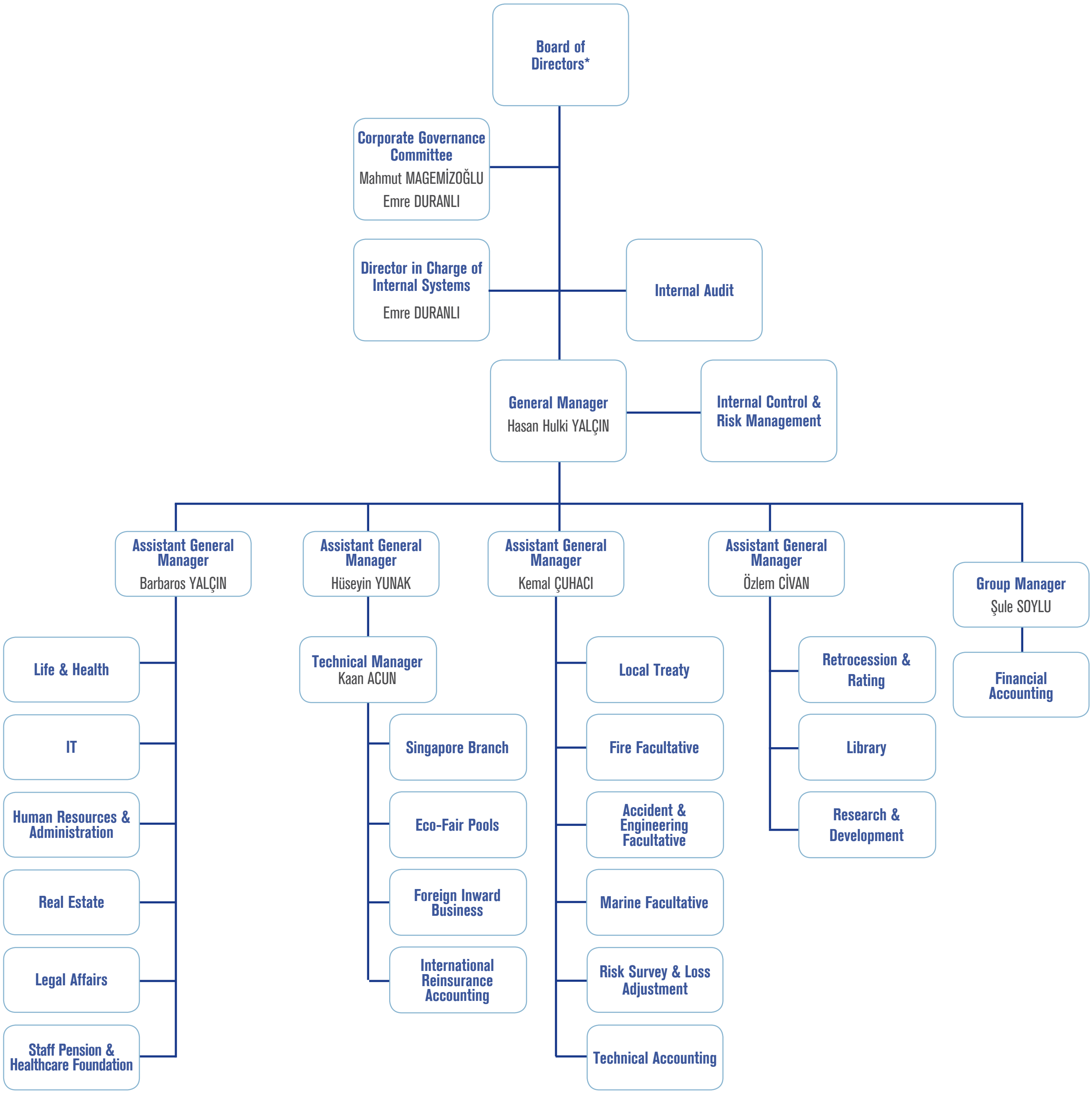
Internal Audit Manager: Ömer ALTUĞ

Term of Office	Professional Experience	Departments Previously Served	Academic Background
4 months	26 years	Accident, FAIR Pool	Bachelor's Degree

Internal Control and Risk Management Assistant Manager: Hülya BULUT

Term of Office	Professional Experience	Departments Previously Served	Academic Background
2 years	14 years	Technical Accounting Department	Doctoral Degree

Organization Chart



* Cahit Nomer, Executive Vice Chairman of the Board of Directors, has the duty and authority of supervision and implementation of the subjects cited in the paragraphs (a) and (b) of the third article of the Articles of Association.

Human Resources Applications

Human Resources Policy

Recognizing that people make up one of the primary strengths that helps it achieve its targets, Milli Re possesses a highly qualified work force that is loyal to the corporation, committed to the job, open to continuous learning and development. The Company's Human Resources policy is built on the fundamental principles of recruiting the candidates possessing the qualifications relevant to the vacant position; providing the business environment that is conducive to working efficiently, productively and happily; protecting and observing financial and moral rights of employees, providing fair and equal opportunities of development and training in view of personal skills; enabling the building of social relationships that serve to motivate the individuals, and executing all internal processes efficiently.

As of year-end 2011, Milli Re had 207 employees on its payroll.

Recruitment

Milli Re recruits candidates possessing the qualifications called for by the relevant position, while also paying attention to selecting individuals who will easily adjust to the corporate culture. The following general qualifications are sought in candidates for employment at Milli Re:

a) Turkish citizenship
b) Completion of 18 years of age and not exceeding 40 years of age
c) Not to have been dismissed, or considered to have withdrawn from the Company
d) No disability or old age pension entitlements from any fund, institution providing social security or from a similar establishment
e) Minimum high school diploma for officers and primary education diploma for other staff
f) No prior conviction for embezzlement, defalcation, malversation, bribery, theft, fraud, forgery, breach of confidence, indirect bankruptcy, or other infamous acts, even if subsequently pardoned
g) Fulfilled military service
h) Unimpaired health conditions suitable for the applied position.

Job application

Job applications are made via personel@millire.com on our corporate website and other communication means and stored in a pool.

When needed, applications are examined and candidates who are seen appropriate for the positions are contacted.

Performance Management

Performance appraisals of employees are conducted on an annual basis in accordance with the Performance Appraisal System Guidelines in place at the Company; based on the results of the appraisals conducted, career planning is made and training needs are identified.

Training

Training requirements identified according to performance appraisal results are used to formulate the training program, and employees are given opportunity to receive technical and personal development training in or out of Turkey as necessitated by their positions.

Promotions

Ever since its establishment, Milli Re had the policy of investing in its work force so that the staff is promoted to managerial positions. Promotions are made in line with the Personnel Regulation and the principles set forth in the collective agreement, done with the Workers' Trade Union, taking into consideration the results of Performance Appraisals.

Transactions Carried out with Milli Re's Risk Group

Being a member of İşbank group, Milli Re carries out its relations with its risk group on an arm's length basis.

Relations with group companies are concentrated mostly in reinsurance, banking, portfolio management, information technologies services and risk management.

Risk management activities are carried out in compliance with Consolidated Risk Policies of the risk group. Possible risks and findings from their measurement are regularly monitored through reporting systems set up within the group.

Detailed information on the Company's transactions with its risk group is presented in the notes to the Financial Statements.

Matters Related to Annual General Meeting

Annual General Meeting Agenda

1. Opening and roll call,
2. Election of the Presiding Board and authorizing the Presiding Board to sign the minutes of the General Meeting,
3. Reading and deliberation of the Board of Directors' report; the Statutory Auditors' report, and the report of the independent audit firm pertaining to the accounts and transactions in 2011,
4. Reading, deliberation and approval of the Company's Financial Statements for 2011; individual acquittal of the members of the Board of Directors and Statutory Auditors of their fiduciary responsibilities,
5. Determination of the manner and date of distribution of profit share,
6. Approving the election made for the seat on the Board of Directors vacated during the year, pursuant to Article 315 of the TCC and Article 12 of the Company's Articles of Association,
7. Approving the election made for the seat on Statutory Auditors vacated during the year, pursuant to Article 351 of the TCC,
8. Election to the seats on the Board of Directors,
9. Election of Auditors,
10. Determination of the remuneration to be paid to the members of the Board of Directors and Statutory Auditors,
11. Authorizing the Board Directors to perform the transactions set out in Articles 334 and 335 of the TCC,
12. Wishes.

Summary Report by the Board of Directors

Distinguished Shareholders,

We respectfully present for your Esteemed Assembly's perusal and approval the balance sheet, income statement, cash flow statement, statement of changes in equity, and profit distribution chart showing the results achieved in 2011 marking the Company's 83rd year of operation, which are tabulated in line with the provisions of applicable legislation and the principles and guidelines set by the Undersecretariat of Turkish Treasury.

2011 has been a year of significant negative developments in many economies, primarily in developed ones. The debt crisis and growth issues experienced by some European Union countries, in particular, indicate that these negative circumstances in financial markets will linger on. In Turkey, on the other hand, the recovery process that started from 2010 continued throughout 2011, resulting in a positive outlook for both economic and financial indicators of our country.

The strong growth attained by the national economy reflected positively on the Turkish insurance industry, and total premium production increased by nearly 21%. Nevertheless, the industry's failure to post positive technical results in non-life branches remained a priority issue also in 2011, as a consequence of the ongoing price-based competition in Land Vehicles (Own Damage, Traffic) and Health insurances that are responsible for more than half of non-life premium production, and of the new implementations in the computation of technical provisions.

2011 was marked by the natural catastrophes that struck different parts of the world, causing unforeseen destruction. The earthquakes in Japan and New Zealand, the heavy tornado season in the US, the flood disasters that took place in Australia, Denmark and especially in Thailand caused big-ticket insured losses. With insured catastrophic losses estimated around USD 107 billion, 2011 went down in the records as the second costliest year following 2005. While there was no considerable decline in the reinsurance capital allocated worldwide, these catastrophes significantly influenced the risk perception of companies, their pricing discipline, and their approaches to catastrophe models.

Writing business both from local and international markets, our Company's total premium production increased by nearly 16% year-on during 2011 and reached TL 992 million. TL 777 million corresponding to 78% of this amount had been generated by the local market, whereas TL 215 million corresponding to 22% of the total premium originated from foreign business. On the other hand, paid claims were up 10% in 2011 and reached TL 680 million.

As a result of increased retained losses locally, particularly in Fire branch, and technical provisions that grew approximately 43% on an annual basis and went up to TL 1,115 million owing to the first time implementation of high provisions calculated in accordance the revised legislation in our records, combined with the natural catastrophes that occurred abroad, we posted loss on our 2011 operations.

Our Company's paid-up capital has been increased to TL 615 million through a capital raise by TL 90 million in 2011. Our Company's total assets were worth TL 1,595 million and shareholders' equity excluding loss for the period amounted to TL 592 million as of year-end 2011.

As the only local reinsurer established and active in Turkey, Milli Re participates to some extent in the reinsurance programs of almost all of the insurance companies backed by domestic or foreign capital in the national market. The Company took significant measures particularly in 2012 renewals in line with the strategy to cut back its share in branches that consistently produce losses locally and to ensure diversification of the international portfolio. Hence, positive implications of the actions taken are expected to be observed in the years ahead.

We extend our thanks to our esteemed shareholders and our employees who were the greatest contributors in making it possible for our Company to pursue its operations successfully for 83 years and making it the leading reinsurer in Turkey.

BOARD OF DIRECTORS

Annual Report – Opinion For Compliance

To the Shareholders of Milli Reasürans Türk Anonim Şirketi,

We have audited the accuracy and the consistency of the financial information in the annual report of Milli Reasürans Türk Anonim Şirketi ("the Company") with the audited financial statements as of 31 December 2011. The annual report is the responsibility of the Company's management. Our responsibility, as independent auditors, is to express an opinion on the annual report based on the compliance of financial information provided in the annual report with the audited financial statements and explanatory notes.

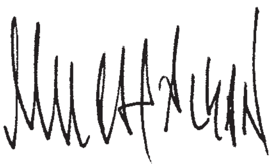
Our audit was conducted in accordance with the regulations on preparation and issuance of annual report in "Communiqué on Individual Retirement Saving and Investment System" ("Communiqué") issued on 7 August 2007 dated and 26606 numbered. Those regulations require that we plan and perform the audit to obtain reasonable assurance regarding whether the consistency of financial information represented in the annual report with the audited financial statements and explanatory notes is free of material misstatement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the financial information provided in the accompanying annual report prepared in accordance with the Communiqué is in compliance with the audited financial statements and explanatory notes of Milli Reasürans Türk Anonim Şirketi, in all material respects, as at 31 December 2011.

Istanbul,

27 February 2012

Akis Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik
Anonim Şirketi



Murat Alsan,
Certified Public Accountant
Partner

Financial Information and Assessment on Internal Systems

Statutory Auditors' Report

TO:
MİLLİ REASÜRANS TÜRK ANONİM ŞİRKETİ
GENERAL ASSEMBLY OF SHAREHOLDERS

Company Name:	Milli Reasürans Türk Anonim Şirketi
Head Office:	Maçka Caddesi No: 35 34367 Şişli-İstanbul
Capital:	TL 615,000,000
Principal Business Activity:	Reinsurance
Names and terms of office of Statutory Auditors, their relation to the Company (employees/partners or not):	Erdal Akgül Engin Ekşi (until 16 August 2011) Zeki Davut (from 16 August 2011) The auditors are neither shareholders, nor employees of the Company.
Scope, dates and outcome of the examination of company accounts, books and records:	During the examinations carried out on Company accounts, books and records, it has been concluded that the records have been kept in accordance with the provisions of the Turkish Commercial Code and applicable legislation.
Number and outcomes of cash counts held at the Company's pay desk pursuant to Article 353, paragraph 1.3 of the Turkish Commercial Code:	No irregularities were established at any of the four cash counts held pursuant to TCC Article 353, paragraph 1.3.
Dates and results of the examinations as required by Article 353, paragraph 1.4 of the Turkish Commercial Code:	In the examinations conducted following the Board of Directors meetings held at the quarterly interim balance sheet periods, it has been established that transactions have been carried out properly.
Complaints or irregularities brought to the auditors' attention and actions taken:	None received.

We have audited the financial statements and accounting data of Milli Reasürans Türk Anonim Şirketi for the period 01 January 2011-31 December 2011 according to the Turkish Commercial Code, the Company's articles of association and other regulations, as well as generally accepted accounting principles and standards.

In our opinion, the attached balance sheet drawn up on 31 December 2011, the contents of which we acknowledge, fairly and accurately presents the Company's financial status on the date, and the income statement for the period 01 January 2011 – 31 December 2011 fairly and accurately presents the operating results for the period.

We hereby submit the balance sheet and financial statements for your approval and recommend that the Board of Directors be released from liability.

20 February 2012

Erdal AKGÜL
Statutory Auditor

Zeki DAVUT
Statutory Auditor

Financial Strength Figures

Financial Ratios

(%)	2007	2008	2009	2010	2011
1. Capital Adequacy Ratios					
Gross Premiums/Shareholders' Equity	119	127	107	107	222
Shareholders' Equity/Total Assets	58	48	49	49	28
Shareholders' Equity/Net Technical Provisions	149	101	110	106	41
2. Asset Quality and Liquidity Ratios					
Liquid Assets/Total Assets	69	71	70	54	56
Liquidity Ratio	166	142	145	112	81
Current Ratio	184	163	169	139	103
Premium and Reinsurance Receivables/Total Assets	6	10	12	12	15
3. Operational Ratios					
Retention Ratio	91	94	92	90	91
Paid Claims/Paid Claims+Outstanding Claims	70	63	60	59	52
4. Profitability Ratios					
Loss Ratio (Gross)	75	80	85	74	96
Expense Ratio (Gross)	23	14	26	25	24
Combined Ratio (Gross)	98	94	111	99	120
Loss Ratio (Net)	78	84	81	79	103
Expense Ratio (Net)	24	15	28	27	26
Combined Ratio (Net)	102	99	109	106	129
Profit Before Tax/Gross Written Premiums	11	19	14	9	(15)
Gross Financial Profit/Gross Written Premiums	11	15	12	6	5
Technical Profit/Gross Written Premiums	1	5	2	3	(20)
Profit Before Tax /Average Total Assets	8	12	8	5	(9)
Profit Before Tax /Average Shareholders' Equity (Except Profit)	16	28	18	11	(22)

Evaluation of the Financial Strength, Profitability and Solvency Margin

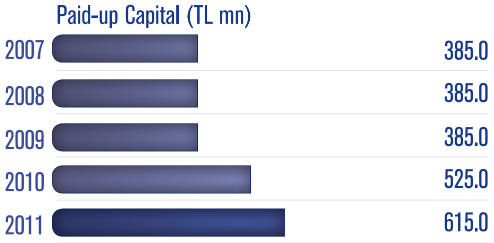
Milli Re generated TL 992 million in premium in 2011, up 16% year-on-year. Claims paid by the company also increased by TL 59.7 million and reached TL 680.2 million.

Details on technical results are presented in the section “2011 Technical Results”.

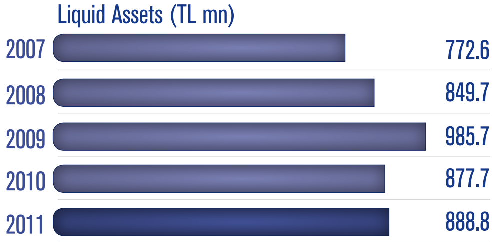
Investment income in 2011 was TL 138.6 million, while investment expenses amounted to TL 114.2 million; Revenues and Profits from Other Operations and Expenses and Losses account yielded a positive result of TL 27.2 million, which translated into a financial profit of TL 51.6 million. The Company’s Liquid Assets correspond to 56% of Total Assets. Owing to its strong asset structure composed of liquid assets, and the balanced maturity distribution of invested assets, Milli Re fulfilled all of its obligations without experiencing any financial hardship in 2011.

The Company possesses adequate shareholders’ equity to cover any losses that might result from its existing liabilities and potential risks.

Paid-up Capital (TL mn)

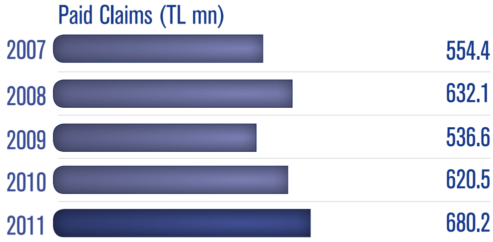


Liquid Assets (TL mn)



Premium Income (TL mn)

Paid Claims (TL mn)



Key Financial Figures

(TL)	2007	2008	2009	2010	2011
Assets					
Cash and Cash Equivalents	311,941,658	489,476,208	583,896,839	382,316,698	582,286,838
Securities	537,759,472	496,207,492	510,592,376	495,359,682	306,538,179
Subsidiaries	143,230,061	87,023,241	124,962,744	-	-
Affiliates	-	-	746,207	387,588,848	227,120,790
Fixed Assets	83,060,997	65,234,219	49,406,849	48,174,048	46,841,614
Doubtful Receivables (Net)	-	-	-	-	-
Total Assets	1,222,852,211	1,389,269,172	1,562,695,861	1,621,268,850	1,594,891,858
Liabilities					
Technical Provisions	473,009,196	658,467,830	698,939,892	756,994,096	1,079,305,637
Shareholders' Equity*	706,923,352	666,717,417	768,774,070	798,689,610	447,269,521
Income and Expense Items					
Technical Income	1,443,738,234	1,458,553,310	1,698,923,036	1,731,029,743	1,937,552,261
Technical Expenses	1,437,779,295	1,418,640,086	1,684,224,810	1,709,405,483	2,133,674,154
Technical Profit/Loss	5,958,939	39,913,223	14,698,225	21,624,260	(196,121,892)
Financial Income	131,590,904	164,799,000	131,010,528	84,818,884	86,126,846
Financial Expenses	45,994,435	62,614,799	42,492,296	35,843,117	28,925,708
General Expenses	18,879,749	10,430,641	9,914,068	6,509,257	5,816,234
Financial Profit/Loss	66,716,721	91,753,559	78,604,165	42,466,510	51,384,904
Profit/Loss for the Period	72,675,660	131,666,783	93,302,390	64,090,771	(144,736,989)

* Including Profit/Loss for the Period

Internal Audit Practices

During 2011, the impacts of the global crisis diminished, growth was recaptured, but lack of balance sheet profitability continued. This situation puts further emphasis on the Internal Audit activities with respect to the productivity and efficiency of companies.

The primary duties of the Internal Audit Department include constant monitoring and auditing of all business affairs and transactions of the Company in terms of their compliance with, specifically, the current laws, regulations, communiqués, decrees, circulars, general conditions and other applicable legislation, as well as the Company's internal guidelines, its management strategy and policies; and detection and prevention of any irregularities, mistakes, or fraud, and evaluation of the efficiency of internal control and risk management processes.

In conjunction with the above, an important aspect of the Department's duties is to provide opinions and suggestions for efficient and productive use of resources to improve and add value to the Company's activities.

Conclusions resulting from the audit are reported to the Board of Directors via the Board member responsible for Internal Systems.

In 2011, the Internal Audit Department has completed on-site inspection of all departments of the Company and also the Singapore Branch carrying out the reinsurance business in the Asia-Pacific region, by way of observation, interview and data analysis. The audit performed revealed no findings that might have an adverse impact on the Company's financial structure.

The Internal Audit Department works to increase the effectiveness of the internal audit practices in the Company every year, and serves efficiently and effectively with the support of the management and cooperation of the employees in fulfilling the purpose of improving the Company's activities and adding value to them.

Internal Control and Risk Management Practices

The Internal Control and Risk Management Department is a double-functioning department responsible for the execution of Internal Control and Risk Management activities in the Company. Practices of this department within the scope of respective regulations, policies, procedures and principles are summarized under two headings.

Internal Control Practices

Internal control system has an important role in ensuring the performance of the Company's operations, within the framework of efficiency, productivity, compliance and reliability principles, in order to protect it against undesired situations and to minimize negative impacts, if any, given that any event in the world may affect all countries and economies at the same time, due to the nature of globalization.

The purpose of the Internal Control Policy is to ensure that the Company's assets are well protected; its activities are carried out efficiently and effectively and in adherence to the Company regulations and policies, and also to the Customs of Insurance Industry. Reliability, consistency and integrity of accounting and financial reporting systems and prompt accessibility of the information within the organization are also aimed by the overall internal control scheme and associated policies. In conjunction with this overall purpose, internal control activities encapsulate the Company's core operational activities and any processes related to those operational activities, communication channels and information systems, financial reporting systems, and compliance controls.

In the performance of internal control activities, the "Control Center" has been structured through the establishment of the "Internal Control and Risk Management Department", while the "Control Environment" has been structured through assignment of Company employees within the scope of these activities. The Control Group consists of 21 people, out of whom 2 are located in the Control Center and 19 are in the Control Environment.

Activities Conducted from the Control Center

Any regulatory changes are monitored on a daily basis, while all related individuals are informed by email on aspects that are concerned with the Company's activities and operations, and immediate actions are taken in line with the provisions of applicable legislation.

Authorities and limit delegations of staff are documented in the relevant implementation procedures, flowcharts, and job descriptions. These documents are continuously reviewed and updated according to the changing needs, requirements, circumstances and identified risks.

User requests received by the help desk and Commission and Technician applications on the help desk are controlled daily, which are then examined with respect to their compliance with the regulations mentioned above and the approval process runs in this context.

User activity log records, reports from the log management application and relevant records from the database are also controlled on a daily basis and their compliance with the said procedures is reviewed systematically.

If any problems are identified during the control activities, action is taken promptly for necessary corrective steps and prevention of recurrence of the same errors.

Activities Conducted from the Control Environment

The internal control activities to be performed at the Departments are based on the risk points stated in the guidelines distributed to Company employees assigned with the execution of internal activities and the control points in flowcharts, while those to be performed at the IT Center are based on COBIT standards.

Control frequencies, which represent the implementation frequency of a business process, are categorized as "more than once daily", "daily", "weekly", "monthly", "quarterly" and "annually", while samplings thereof are based on 30 samples for a "more than once daily" frequency, 15 samples for a "daily" frequency, 10 samples for a "weekly" frequency, 5 samples for a "monthly" frequency, 2 samples for a "quarterly" frequency and 1 sample for an "annually" frequency.

Matters identified through the controls performed at Departments and reported to the Control Center via Risk Warning Reports within the frame of implementations under basic control areas under the headings core reinsurance and other activities, technical and financial accounting, payments and expenses, financial statements and reports, information systems and compliance are first shared and evaluated with the individuals performing the relevant activities.

In this way, preemptive and complementary actions can be taken rapidly, and appropriate and feasible solutions to improve processes and activities can be introduced.

The evaluations that include the final opinions and suggestions of the Internal Control and Risk Management Department are reported to the General Manager on a monthly basis with the "Internal Control Report". The outcomes of internal control activities are also reviewed regularly by the Board of Directors.

Risk Management Practices

Given the risk-focused nature of the insurance business, insurance and reinsurance companies inevitably establish risk management systems and processes, and systematically and closely monitor risk exposure. Therefore, the Company has been implementing risk management techniques for many years; development of these techniques has gained even greater importance due to the recent adverse developments in the Turkish and worldwide financial markets, as well as because of the unforeseen natural disasters that occurred.

The aim of the Risk Management System is to define the risks arising from the Company's activities, to determine related limits, to measure, monitor, control the risks effectively, to take necessary precautions and to do the necessary reporting to related authorities, as well as to protect Milli Re's reputation and to ensure that liabilities to insurance companies are fulfilled completely and in a timely manner.

The function of the Risk Committee, which is established for the purpose of determining risk management strategies and policies that the Company will follow and submitting them to the Board of Directors for approval, is to evaluate the Risk Management activities of the "Internal Control and Risk Management Department" in accordance with the procedures governing Risk Management functions and to monitor the implementation of these functions throughout the Company.

The "Risk Catalogue", which aims to form a common terminology within the Company and in which possible risks are classified and defined by examples and the "Risk Management Guide", which includes the organization of the Risk Management function, possible risks and their measurement methods, are updated every year in accordance with the activities of the Company and approved to the Board of Directors.

Moreover, the measurement methods of the risks that the Company is/may be exposed to, risk management duties and responsibilities, Company's risk tolerance, risk limits, determination methods of these limits and plans in case of limit violations are detailed in the "Application Principles In Respect of Risk Limits", which is approved by the Board of Directors and updated every year.

The risk management duties and responsibilities of the Internal Control and Risk Management Department, which is a separate body organized independently from the Company's executive functions, are as follows:

- To determine, define, measure, monitor and control risks
- To determine the risk management principles, procedures and policies predicated on the risk management strategies and to submit them to the Risk Committee
- To declare risk management principles, procedures and policies throughout the Company
- To provide the implementation of the policies and compliance with them
- To develop risk management techniques and methods, to ensure that risks are within the determined limits and to monitor limit violations, if any, and
- To carry out reporting and announcement activities in respect of risk management.

Basic Risks and Measurement Methods

Risks that the Company is and/or may be exposed to are classified under two headings: financial and non-financial risks. Explanations regarding the definitions and assessment methods of basis risks are stated below.

FINANCIAL RISKS

Reinsurance Risk

This risk arises from the inaccurate and inefficient application of reinsurance techniques in the process of making profit by underwriting and retrocession activities.

In order to keep this risk under control, which is measured by quantitative methods, the Application Principles In Respect of Risk Limits, where underwriting limits, related implementations and retention limits are stated, is revised regularly.

Underwriting limits, risk profiles and accumulation that may occur in the event of a catastrophe risk are taken into consideration when preparing retrocession agreements for the purpose of covering the liabilities arising from underwritten business. The largest risk faced by the Company is the earthquake risk stemming from domestic acceptances. In respect of this risk, the results of the dynamic financial analysis performed by using the Company's internal modeling are assessed. It is ensured that the difference between the estimated gross loss amount obtained as a result of the financial analysis and the coverage limit of retrocession agreement and total equalization reserve is in compliance with the limits set out in the Application Principles In Respect of Risk Limits.

Credit Risk

This risk expresses the probability of loss arising from the full or partial default of the counterparties (security issuers, insurance/reinsurance companies, other debtors) with which the Company has a business relationship.

Regarding this risk, which is measured by both quantitative and qualitative methods, the weighted reinsurers in retrocession programs, credit ratings of these reinsurers that indicate their financial strengths and their financial positions are analyzed.

On the other hand, overdue receivables and the distribution of Company's investment portfolio in terms of counterparties are monitored regularly.

Asset – Liability Management Risk

This risk expresses the loss arising from the inefficient and inaccurate management of the Company assets; without considering the characteristics of the liabilities and optimizing the risk-return balance.

This risk, which is measured by quantitative methods, includes all other financial risks of the Company with the exception of Reinsurance and Credit Risk. The components of the risk are described below:

a- Market Risk

This risk expresses the probability of loss because of the interest rate risk, rate of exchange risk and equity position risk occurring in the financial position of the company due to the interest, rate of exchange, equity, commodity and option price changes arising from the volatilities in financial markets.

Market Risk is measured by using a quantitative method named Value at Risk (VaR). This method measures the expected "severe" loss amount of the portfolio appearing on a "day of crisis". The VaR of a portfolio represents the maximum loss which may arise in value of this portfolio that is retained for a definite period, as a result of volatilities arising in interest rates, exchange rates and stock prices, using a determined confidence level. While calculating Value at Risk of the Company's portfolio, Historical Simulation Method, which creates different scenarios by using the past data, is applied and a historical data of 250 working days, a confidence level of 99% and a holding period of one day are taken as basis.

Value at Risk is calculated on a daily basis and the results of the measurement are verified by Back Tests. In addition, the Stress Tests which are applied quarterly are the supporting factors of Value at Risk method in calculating the loss caused by unexpected and extraordinary situations and also by Scenario Analysis different scenarios are created for the purpose of monitoring the sensitivity of the Company portfolio to the changes in basic risk factors.

Market Risk limits are determined by the ratio of VaR to the Investment Portfolio Value and to Shareholders' Equity, and stated in "Application Principles In Respect of Risk Limits". Limit violations are monitored regularly.

b- Liquidity Risk

This risk denotes the imbalance between the Company's cash inflows and outflows in terms of maturity and volume. Liquidity Risk takes place if the Company is not able to access enough funds in order to fulfill its commitments and liabilities when big losses occur and to pay the insurance companies' immediate cash claims.

In respect of this risk, which is measured by quantitative methods, any liquidity deficit is observed via the maturity analysis of assets and liabilities in the balance sheet. (Asset / Liability Duration Matching) Moreover, the Company's liquidity structure is monitored by using the following basic indicators determined by the Undersecretariat of Turkish Treasury in respect to Liquidity Ratios:

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

Developments of these ratios in comparison to the previous year are monitored regularly.

c- Capital Investment Risk

This risk expresses the loss that may arise in the value of capital investments or dividend income due to general market conditions and / or to the problems in managerial or financial structure of the invested companies.

Market values of the equities under Financial Assets Held for Trading are examined within the context of VaR analysis by using Istanbul Stock Exchange data. Market values of the equities under Available-for-Sale Financial Assets and Subsidiaries are assessed within Shareholder's Equity analysis by using Istanbul Stock Exchange data.

Capital investments regarding capital market instruments which are unlisted in İstanbul Stock Exchange are subject to the approval of the Board of Directors.

d- Real Estate Investment Risk

This risk expresses the negative impact of adverse movements or excessive volatilities in real estate prices or the sale of the real estates under actual value on assets which are sensitive to real estate prices.

Real Estate Investment Risk is monitored in accordance with valuation reports which are to be prepared in accordance with the related provisions of the legislation and in the context of the Company's requirements and investment policies.

NON-FINANCIAL RISKS

Operational Environment Risk

This risk is defined as the negative impact on the operational ability of the company, due to the external factors in Company's operating areas such as political, economic, demographic conditions.

Qualitative methods are used to measure this risk. On the basis of "Self Assessment Methodology", "Questionnaire" and/or "Interview" methods are used to determine the impact and probability level of the risk as "High", "Moderate", "Reasonable" or "Low".

Moreover, underwriting portfolio is monitored regularly during the year to see if business is accepted from a country that is defined as "unapproved" territory. On the other hand, the countries, which the underwriting portfolio is concentrated in, are identified and the ratings of these countries are studied.

Strategy Risk

This risk arises due to the inefficient managerial and organizational structure of the Company, inability of the management to develop effective strategies or non-disclosure and/or lack of implementation of these strategies, erroneous business decisions, improper application of decisions or noncompliance with the changing market dynamics.

Qualitative methods are used to measure the level of this risk. On the basis of "Self Assessment Methodology", "Questionnaire" and/or "Interview" methods are used to determine the impact and probability level of the risk as "High", "Moderate", "Reasonable" or "Low".

Model Risk

This risk expresses the probability of loss that may occur if the models that the Company uses within the risk measurement processes are inappropriately designed or not properly implemented.

The probability of inaccurate and inadequate results produced by the Market Risk Value at Risk Model, which is currently used by the Company, and the internal model used for calculating the Catastrophe Risk is considered under this risk category.

In the measurement and evaluation of Model Risk, "Questionnaire" and/or "Interview" methods are used on the basis of "Self Assessment Methodology", to determine the impact and probability level of the risk as "High", "Moderate", "Reasonable" or "Low".

Operational Risk

This risk expresses the probable losses arising from inappropriate or inoperative business processes, human errors, technological or infrastructural interruptions, business interruption due to disasters, changes in management or processes, inaccurate internal/external reporting or external factors occurring while the Company conducts its basic functions necessary for the continuation of business.

Qualitative and quantitative methods are used together in measuring the operational risk.

Factor Based Standard Approach, which is developed under Solvency II framework, is applied as a quantitative method. In this method, the required capital for operational risks is calculated by multiplying Gross Technical Provisions and Gross Earned Premiums by the factors in respect of the branches they are related to.

"Self Assessment Methodology", which allows the risks related to activities conducted, to be determined via participation of staff who is performing such activities, is applied as a qualitative method. The level of the operational risk that the Company is exposed to is subsequently classified as "High", "Requiring Precautionary Measures" or "Acceptable", depending on the result of the assessments.

Moreover, the "Regulation In Respect of Business Continuity Management" was approved by the Board of Directors on 6 June 2011 so as to conduct and monitor the sub risk branches in respect of Business Continuity and Information Technologies Continuity which are the components of Business Interruption Risk.

Subsequently, Business Continuity Management Implementation Procedures and Principles and Business Continuity Plan within the context of business continuity and IT Center Business Continuity Management Implementation Procedures and Principles and Business Continuity Plan within the context of IT continuity were developed. Implementation Procedures and Principles were approved by the General Manager and Business Continuity Plans were approved by Business Continuity Management Committee.

Internal training programs are organized and tests/drills are realized every year within the context of Business Continuity Management.

Reputation Risk

This risk can be defined as the probable loss of confidence of counterparties or damage to the “Company Reputation” resulting from failures in the performance of the Company or noncompliance with current regulations.

Qualitative methods are used to measure the level of this risk. On the basis of “Self Assessment Methodology”, “Questionnaire” and/or “Interview” methods are used to determine the impact and probability level of the risk as “High”, “Moderate”, “Reasonable” or “Low”.

All findings obtained as a result of measuring the above-mentioned risks, all analyses and assessments regarding these findings are reported to the General Manager, Risk Committee and Board of Directors, as well as to the Directorate of Subsidiaries and Directorate of Risk Management of İşbank by the Internal Control and Risk Management Department regularly.

If the impact and probability level of the risks are found “high”, the Board of Directors determines an action plan regarding the necessary transactions..

Assessment of Capital Adequacy

The Company’s capital adequacy is measured according to the provisions of “Regulation in Respect of Measurement and Assessment of Capital Adequacy of Insurance, Reinsurance and Pension Companies”, which was published by Undersecretariat of Turkish Treasury and assessments regarding the results are first submitted to the Risk Committee via the “Risk Assessment Report” and after the approval of the committee, submitted to the Board of Directors.

The factor-based method, used according to the said regulation, is a method which determines the amount of capital defined in the same regulation as per each type of risk, and thus allows the calculation of the total required capital.

Independent Auditors' Report

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

To the Board of Directors of Milli Reasürans Türk Anonim Şirketi

Introduction

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

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

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

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

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

Independent Auditors' Opinion

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

Emphasis of matter

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

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

Istanbul, 20 February 2012

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik AŞ

Murat Alsan, Certified Public Accountant

Partner

Additional paragraph for convenience translation to English:

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

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

Istanbul, 20 February 2012

Şule SOYLU Group Manager	Kemal ÇUHACI Assistant General Manager	Hasan Hulki YALÇIN General Manager
Ertan TAN Actuary	Erdal AKGÜL Statutory Auditor	Zeki DAVUT Statutory Auditor

Millî Reasürans Türk Anonim Şirketi

Unconsolidated Balance Sheet as at 31 December 2011

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

ASSETS

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

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

Millî Reasürans Türk Anonim Şirketi

Unconsolidated Balance Sheet as at 31 December 2011

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

ASSETS			
		Audited	Audited
		Current Period	Prior Period
II- Non-Current Assets	Note	31 December 2011	31 December 2010
A- Receivables from Main Operations		--	--
1- Receivables from Insurance Operations		--	--
2- Provision for Receivables from Insurance Operations		--	--
3- Receivables from Reinsurance Operations		--	--
4- Provision for Receivables from Reinsurance Operations		--	--
5- Cash Deposited for Insurance and Reinsurance Companies		--	--
6- Loans to the Policyholders		--	--
7- Provision for Loans to the Policyholders		--	--
8- Receivables from Individual Pension Business		--	--
9- Doubtful Receivables from Main Operations	4.2,12	9,833,504	8,374,541
10- Provision for Doubtful Receivables from Main Operations	4.2,12	(9,833,504)	(8,374,541)
B- Due from Related Parties		--	--
1- Due from Shareholders		--	--
2- Due from Associates		--	--
3- Due from Subsidiaries		--	--
4- Due from Joint Ventures		--	--
5- Due from Personnel		--	--
6- Due from Other Related Parties		--	--
7- Rediscount on Receivables from Related Parties		--	--
8- Doubtful Receivables from Related Parties		--	--
9- Provision for Doubtful Receivables from Related Parties		--	--
C- Other Receivables		--	--
1- Finance Lease Receivables		--	--
2- Unearned Finance Lease Interest Income		--	--
3- Deposits and Guarantees Given		--	--
4- Other Miscellaneous Receivables		--	--
5- Rediscount on Other Miscellaneous Receivables		--	--
6- Other Doubtful Receivables		--	--
7- Provision for Other Doubtful Receivables		--	--
D- Financial Assets	9	227,120,790	387,588,848
1- Investments in Equity Shares		--	--
2- Investments in Associates		--	--
3- Capital Commitments to Associates		--	--
4- Investments in Subsidiaries	9	227,120,790	387,588,848
5- Capital Commitments to Subsidiaries		--	--
6- Investments in Joint Ventures		--	--
7- Capital Commitments to Joint Ventures		--	--
8- Financial Assets and Financial Investments with Risks on Policyholders		--	--
9- Other Financial Assets		--	--
10- Impairment in Value of Financial Assets		--	--
E- Tangible Assets	6	46,124,814	47,311,213
1- Investment Properties	6,7	41,342,839	41,342,839
2- Impairment for Investment Properties		--	--
3- Owner Occupied Property	6	31,392,945	31,392,945
4- Machinery and Equipments		--	--
5- Furniture and Fixtures	6	3,356,360	2,504,628
6- Motor Vehicles	6	968,401	1,008,696
7- Other Tangible Assets (Including Leasehold Improvements)		--	--
8- Tangible Assets Acquired Through Finance Leases		--	--
9- Accumulated Depreciation	6	(30,935,731)	(28,937,895)
10- Advances Paid for Tangible Assets (Including Construction in Progress)		--	--
F- Intangible Assets	8	716,800	862,835
1- Rights	8	2,046,157	1,776,173
2- Goodwill		--	--
3- Pre-operating Expenses		--	--
4- Research and Development Costs		--	--
5- Other Intangible Assets		--	--
6- Accumulated Amortization	8	(1,329,357)	(913,338)
7- Advances Paid for Intangible Assets		--	--
G- Prepaid Expenses and Income Accruals		12,518	118,913
1- Prepaid Expenses		12,518	--
2- Income Accruals		--	--
3- Other Prepaid Expenses and Income Accruals		--	118,913
H- Other Non-Current Assets	21	78,191,494	9,337,784
1- Effective Foreign Currency Accounts		--	--
2- Foreign Currency Accounts		--	--
3- Stocks to be Used in the Following Years		--	--
4- Prepaid Taxes and Funds		--	--
5- Deferred Tax Assets	21	78,191,494	9,337,784
6- Other Miscellaneous Non-Current Assets		--	--
7- Amortization on Other Non-Current Assets		--	--
8- Provision for Other Non-Current Assets		--	--
II- Total Non-Current Assets		352,166,416	445,219,593
TOTAL ASSETS		1,594,891,858	1,621,268,850

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

Millî Reasürans Türk Anonim Şirketi

Unconsolidated Balance Sheet as at 31 December 2011

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

LIABILITIES

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

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

Millî Reasürans Türk Anonim Şirketi
Unconsolidated Balance Sheet as at 31 December 2011

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

LIABILITIES

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

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

Millî Reasürans Türk Anonim Şirketi

Unconsolidated Balance Sheet as at 31 December 2011

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

EQUITY

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

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

Millî Reasürans Türk Anonim Şirketi

Unconsolidated Statement of Income for the Year Ended 31 December 2011

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

I- TECHNICAL SECTION	Note	Audited Current Period 31 December 2011	Audited Prior Period 31 December 2010
A- Non-Life Technical Income		898,125,471	857,743,242
1- Earned Premiums (Net of Reinsurer Share)		765,545,206	770,144,841
1.1- Written Premiums (Net of Reinsurer Share)	17	889,617,820	756,169,542
1.1.1- Written Premiums, gross	17	974,558,187	837,494,731
1.1.2- Written Premiums, ceded	10, 17	(84,940,367)	(81,325,189)
1.2- Change in Reserve for Unearned Premiums (Net of Reinsurer Shares and Less the Amounts Carried Forward)	17, 29	(65,696,708)	16,245,702
1.2.1- Reserve for Unearned Premiums, gross	17	(72,925,529)	16,016,992
1.2.2- Reserve for Unearned Premiums, ceded	10,17	7,228,821	228,710
1.3- Change in Reserve for Unexpired Risks (Net of Reinsurer Share and Less the Amounts Carried Forward)		(58,375,906)	(2,270,403)
1.3.1- Reserve for Unexpired Risks, gross		(60,106,933)	(2,363,248)
1.3.2- Reserve for Unexpired Risks, ceded		1,731,027	92,845
2- Investment Income - Transferred from Non-Technical Section		68,568,485	73,126,412
3- Other Technical Income (Net of Reinsurer Share)		64,011,780	14,471,989
3.1- Other Technical Income, gross		64,011,780	14,471,989
3.2- Other Technical Income, ceded		--	--
B- Non-Life Technical Expense		(1,096,811,654)	(836,575,324)
1- Incurred Losses (Net of Reinsurer Share)		(855,842,428)	(616,197,950)
1.1- Claims Paid (Net of Reinsurer Share)	17, 29	(656,622,779)	(552,958,160)
1.1.1- Claims Paid, gross	17	(673,374,274)	(613,238,153)
1.1.2- Claims Paid, ceded	10, 17	16,751,495	60,279,993
1.2- Change in Provisions for Outstanding Claims (Net of Reinsurer Share and Less the Amounts Carried Forward)	17, 29	(199,219,649)	(63,239,790)
1.2.1- Change in Provisions for Outstanding Claims, gross	17	(205,155,853)	(15,634,564)
1.2.2- Change in Provisions for Outstanding Claims, ceded	10, 17	5,936,204	(47,605,226)
2- Change in Provision for Bonus and Discounts (Net of Reinsurer and Less the Amounts Carried Forward)		--	--
2.1- Provision for Bonus and Discounts, gross		--	--
2.2- Provision for Bonus and Discounts, ceded		--	--
3- Change in Other Technical Reserves (Net of Reinsurer Share and Less the Amounts Carried Forward)	29	1,669,500	(3,225,803)
4- Operating Expenses	32	(242,638,726)	(217,151,571)
C- Net Technical Income-Non-Life (A – B)		(198,686,183)	21,167,918
D- Life Technical Income		17,763,764	15,323,781
1- Earned Premiums (Net of Reinsurer Share)		16,338,915	14,301,819
1.1- Written Premiums (Net of Reinsurer Share)	17	16,791,181	16,975,849
1.1.1- Written Premiums, gross	17	17,434,891	17,808,180
1.1.2- Written Premiums, ceded	10, 17	(643,710)	(832,331)
1.2- Change in Reserve for Unearned Premiums (Net of Reinsurer Shares and Less the Amounts Carried Forward)	17, 29	(452,266)	(2,674,030)
1.2.1- Reserve for Unearned Premiums, gross	17	(214,301)	(2,863,455)
1.2.2- Reserve for Unearned Premiums, ceded	10, 17	(237,965)	189,425
1.3- Change in Reserve for Unexpired Risks (Net of Reinsurer Share and Less the Amounts Carried Forward)		--	--
1.3.1- Reserve for Unexpired Risks, gross		--	--
1.3.2- Reserve for Unexpired Risks, ceded		--	--
2- Investment Income		1,371,200	981,000
3- Unrealized Gains on Investments		--	--
4- Other Technical Income (Net of Reinsurer Share)		53,649	40,962

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

Unconsolidated Statement of Income for the Year Ended 31 December 2011

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

I- TECHNICAL SECTION	Note	Audited Current Period 31 December 2011	Audited Prior Period 31 December 2010
E- Life Technical Expense		(15,199,473)	(14,867,439)
1- Incurred Losses (Net of Reinsurer Share)		(6,677,005)	(7,811,396)
1.1- Claims Paid (Net of Reinsurer Share)	17, 29	(6,823,372)	(5,506,322)
1.1.1- Claims Paid, gross	17	(6,840,714)	(7,247,252)
1.1.2- Claims Paid, ceded	10, 17	17,342	1,740,930
1.2- Change in Provisions for Outstanding Claims (Net of Reinsurer Share and Less the Amounts Carried Forward)	17, 29	146,367	(2,305,074)
1.2.1- Change in Provisions for Outstanding Claims, gross	17	17,103	(2,303,763)
1.2.2- Change in Provisions for Outstanding Claims, ceded	10, 17	129,264	(1,311)
2- Change in Provision for Bonus and Discounts (Net of Reinsurer and Less the Amounts Carried Forward)		--	--
2.1- Provision for Bonus and Discounts, gross		--	--
2.2- Provision for Bonus and Discounts, ceded		--	--
3- Change in Life Mathematical Provisions (Net of Reinsurer Share and Less the Amounts Carried Forward)	29	(184,915)	(351,797)
3.1- Change in Life Mathematical Provisions, gross	29	(184,915)	(351,797)
3.2- Change in Life Mathematical Provisions, ceded		--	--
4- Change in Provisions for Policies Investment Risks of Which Belongs to Life Insurance Policyholders (Net of Reinsurer Share and Less the Amounts Carried Forward)		--	--
4.1- Change in Provisions for Policies Investment Risks of Which Belongs to Life Insurance Policyholders, gross		--	--
4.2- Change in Provisions for Policies Investment Risks of Which Belongs to Life Insurance Policyholders, ceded		--	--
5- Change in Other Technical Reserves (Net of Reinsurer Share and Less the Amounts Carried Forward)	29	(197,964)	(233,007)
6- Operating Expenses	32	(8,139,589)	(6,471,239)
7- Investment Expenses		--	--
8- Unrealized Losses on Investments		--	--
9- Investment Income Transferred to the Non-Life Technical Section		--	--
F- Net Technical Income- Life (D – E)		2,564,291	456,342
G- Pension Business Technical Income		--	--
1- Fund Management Income		--	--
2- Management Fee		--	--
3- Entrance Fee Income		--	--
4- Management Expense Charge in case of Suspension		--	--
5- Income from Private Service Charges		--	--
6- Increase in Value of Capital Allowances Given as Advance		--	--
7- Other Technical Expense		--	--
H- Pension Business Technical Expense		--	--
1- Fund Management Expense		--	--
2- Decrease in Value of Capital Allowances Given as Advance		--	--
3- Operating Expenses		--	--
4- Other Technical Expenses		--	--
I- Net Technical Income - Pension Business (G – H)		--	--

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

Millî Reasürans Türk Anonim Şirketi
Unconsolidated Statement of Income for the Year Ended 31 December 2011
Convenience Translation of Financial Statements and Related Disclosures and Footnotes Originally Issued in Turkish, See Note 2.1.1
(Currency: Turkish Lira (TL))

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

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

Millî Reasürans Türk Anonim Şirketi

Unconsolidated Statement of Changes in Equity for the Year Ended 31 December 2011

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

(Currency: Turkish Lira (TL))

Audited Changes in Equity – 31 December 2010

	Note	Paid-in Capital	Own Shares of the Company	Revaluation of Financial Assets
I - Balance at the end of the previous year – 31 December 2009		385,000,000	--	42,359,636
II – Correction(*)	2.1.6	--	--	(4,737,412)
III – Restated balances (I+II) – 31 December 2009		385,000,000	--	37,622,224
A- Capital increase (A1+A2)		140,000,000	--	--
1- In cash		--	--	--
2- From reserves		140,000,000	--	--
B- Purchase of own shares		--	--	--
C- Gains or losses that are not included in the statement of income		--	--	--
D- Change in the value of financial assets		--	--	16,882,376
E- Currency translation adjustments		--	--	--
F- Other gains or losses		--	--	--
G- Inflation adjustment differences		--	--	--
H- Net profit for the year		--	--	--
I – Other reserves and transfers from retained earnings		--	--	--
J- Dividends paid		--	--	--
IV - Balance at the end of the year – 31 December 2010		525,000,000	--	54,504,600

Audited Changes in Equity – 31 December 2011

	Note	Paid-in Capital	Own Shares of the Company	Revaluation of Financial Assets
I - Balance at the end of the previous year – 31 December 2010		525,000,000	--	54,504,600
II – Correction		--	--	--
III – Restated balances (I+II) – 31 December 2010		525,000,000	--	54,504,600
A- Capital increase (A1+A2)		90,000,000	--	--
1- In cash		--	--	--
2- From reserves		90,000,000	--	--
B- Purchase of own shares		--	--	--
C- Gains or losses that are not included in the statement of income		--	--	--
D- Change in the value of financial assets		--	--	(166,766,456)
E- Currency translation adjustments		--	--	--
F- Other gains or losses		--	--	--
G- Inflation adjustment differences		--	--	--
H- Net profit for the year		--	--	--
I- Other reserves and transfers from retained earnings	38	--	--	--
J- Dividends paid	38	--	--	--
IV - Balance at the end of the year – 31 December 2011		615,000,000	--	(112,261,856)

(*) Refer to note 2.1.6.

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

	Inflation Adjustment	Currency Translation Adjustment	Legal Reserves	Statutory Reserves	Other Reserves and Retained Earnings	Net Profit for the Year	Retained Earnings	Total
	--	--	30,583,364	91,000,000	143,102,206	88,924,641	--	780,969,847
	--	--	--	--	--	4,377,749	(11,836,115)	(12,195,778)
	--	--	30,583,364	91,000,000	143,102,206	93,302,390	(11,836,115)	768,774,069
	--	--	--	--	(140,000,000)	--	--	--
	--	--	--	--	--	--	--	--
	--	--	--	--	(140,000,000)	--	--	--
	--	--	--	--	--	--	--	--
	--	--	--	--	--	--	--	--
	--	--	--	--	--	--	--	16,882,376
	--	(357,479)	--	--	--	--	--	(357,479)
	--	--	--	--	--	--	--	--
	--	--	--	--	--	--	--	--
	--	--	--	--	--	64,090,771	--	64,090,771
	--	--	12,273,123	23,500,000	1,022,110	(41,675,000)	5,807,030	927,263
	--	--	--	--	--	(51,627,390)	--	(51,627,390)
	--	(357,479)	42,856,487	114,500,000	4,124,316	64,090,771	(6,029,085)	798,689,610

	Inflation Adjustment	Currency Translation Adjustment	Legal Reserves	Statutory Reserves	Other Reserves and Retained Earnings	Net Profit for the Year	Retained Earnings	Total
	--	(357,479)	42,856,487	114,500,000	4,124,316	64,090,771	(6,029,085)	798,689,610
	--	--	--	--	--	--	--	--
	--	(357,479)	42,856,487	114,500,000	4,124,316	64,090,771	(6,029,085)	798,689,610
	--	--	--	(90,000,000)	--	--	--	--
	--	--	--	--	--	--	--	--
	--	--	--	(90,000,000)	--	--	--	--
	--	--	--	--	--	--	--	--
	--	--	--	--	--	--	--	--
	--	--	--	--	--	--	--	(166,766,456)
	--	(5,009,748)	--	--	--	--	--	(5,009,748)
	--	--	--	--	--	--	--	--
	--	--	--	--	--	--	--	--
	--	--	--	--	--	(144,736,989)	--	(144,736,989)
	--	--	6,766,207	15,000,000	1,388,583	(29,183,875)	6,029,085	--
	--	--	--	--	--	(34,906,896)	--	(34,906,896)
	--	(5,367,227)	49,622,694	39,500,000	5,512,899	(144,736,989)	--	447,269,521

Unconsolidated Statement of Cash Flows for the Year Ended 31 December 2011

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

(Currency: Turkish Lira (TL))

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

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

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

Unconsolidated Statement of Profit Distribution for the Year Ended 31 December 2011

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

	Note	Audited Current Period 31 December 2011(*)	Audited Prior Period 31 December 2010
I. DISTRIBUTION OF THE PERIOD PROFIT			
1.1. PERIOD PROFIT		(144,516,090)	75,598,257
1.2. TAXES AND DUTIES PAYABLE	35	220,899	11,507,486
1.2.1. Corporate Tax (Income Tax)	35	220,899	11,507,486
1.2.2. Income Tax Deductions		--	--
1.2.3. Other Taxes and Legal Duties		--	--
A. CURRENT PERIOD PROFIT (1.1 – 1.2)		(144,736,989)	64,090,771
1.3. ACCUMULATED LOSSES (-)		--	(6,029,085)
1.4. FIRST LEGAL RESERVES (-)		--	(5,806,169)
1.5. OTHER STATUTORY RESERVES (-)		--	--
B. NET PROFIT AVAILABLE FOR DISTRIBUTION [(A - (1.3 + 1.4 + 1.5)]		--	52,255,517
1.6. FIRST DIVIDEND TO SHAREHOLDERS (-)		--	(5,806,169)
1.6.1. To owners of ordinary shares		--	(5,806,169)
1.6.2. To owners of privileged shares		--	--
1.6.3. To owners of redeemed shares		--	--
1.6.4. To holders profit sharing bonds		--	--
1.6.5. To holders of profit and loss sharing certificates		--	--
1.7. DIVIDENDS TO PERSONNEL (-)		--	(943,480)
1.8. DIVIDENDS TO FOUNDERS (-)		--	(1,100,727)
1.9. DIVIDENDS TO BOARD OF DIRECTORS (-)		--	--
1.10. SECOND DIVIDEND TO SHAREHOLDERS (-)		--	(28,000,000)
1.10.1. To owners of ordinary shares		--	(28,000,000)
1.10.2. To owners of privileged shares		--	--
1.10.3. To owners of redeemed shares		--	--
1.10.4. To holders profit sharing bonds		--	--
1.10.5. To holders of profit and loss sharing certificates		--	--
1.11. LEGAL RESERVES (-)		--	(960,038)
1.12. STATUTORY RESERVES (-)		--	(15,000,000)
1.13. EXTRAORDINARY RESERVES		--	--
1.14. OTHER RESERVES		--	(445,103)
1.15. SPECIAL FUNDS		--	--
II. DISTRIBUTION OF RESERVES		--	--
2.1. APPROPRIATED RESERVES		--	--
2.2. SECOND LEGAL RESERVES (-)		--	--
2.3. DIVIDENDS TO SHAREHOLDERS (-)		--	--
2.3.1. To owners of ordinary shares		--	--
2.3.2. To owners of privileged shares		--	--
2.3.3. To owners of redeemed shares		--	--
2.3.4. To holders of profit sharing bonds		--	--
2.3.5. To holders of profit and loss sharing certificates		--	--
2.4. DIVIDENDS TO PERSONNEL (-)		--	--
2.5. DIVIDENDS TO BOARD OF DIRECTORS (-)		--	--
III. EARNINGS PER SHARE		--	--
3.1. TO OWNERS OF ORDINARY SHARES		--	64,090,771
3.2. TO OWNERS OF ORDINARY SHARES (%)		--	12,2078
3.3. TO OWNERS OF PRIVILEGED SHARES		--	--
3.4. TO OWNERS OF PRIVILEGED SHARES (%)		--	--
IV. DIVIDEND PER SHARE		--	--
4.1. TO OWNERS OF ORDINARY SHARES		--	33,806,169
4.2. TO OWNERS OF ORDINARY SHARES (%)		--	6,4393
4.3. TO OWNERS OF PRIVILEGED SHARES		--	--
4.4. TO OWNERS OF PRIVILEGED SHARES (%)		--	--

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

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

(Currency: Turkish Lira (TL))

1 General information

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

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

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

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

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

1.3 Business of the Company

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

1.4 Description of the main operations of the Company

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

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

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

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

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

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

1.6 Wages and similar benefits provided to the senior management

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

(Currency: Turkish Lira (TL))

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

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

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

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

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

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

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

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

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

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

1.10 Subsequent events

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

2 Summary of significant accounting policies

2.1 Basis of preparation

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

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

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

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

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

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

Additional paragraph for convenience translation to English

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

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

Accounting in hyperinflationary countries

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

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

(Currency: Turkish Lira (TL))

Other accounting policies

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

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

2.1.3 Functional and presentation currency

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

2.1.4 Rounding scale of the amounts presented in the financial statements

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

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

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

2.1.6 Accounting policies, changes in accounting estimates and errors

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

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

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

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

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

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

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

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

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

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

2.2 Consolidation

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

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

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

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

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

2.3 Segment reporting

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

2.4 Foreign currency transactions

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

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

(Currency: Turkish Lira (TL))

2.5 Tangible assets

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

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

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

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

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

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

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

2.6 Investment property

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

Investment properties are measured initially at cost including transaction costs.

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

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

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

2.7 Intangible assets

The Company's intangible assets consist of computer software.

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

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

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

2.8 Financial assets

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

Securities are recognized and derecognized at the date of settlement.

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

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

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

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

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

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

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

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

2.9 Impairment on asset

Impairment on financial assets

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

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

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

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

(Currency: Turkish Lira (TL))

Impairment on tangible and intangible assets

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

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

2.10 Derivative Financial Instruments

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

Derivative financial instruments are initially recognized at their fair value.

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

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

2.11 Offsetting of financial assets

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

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

2.12 Cash and cash equivalents

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

2.13 Capital

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

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

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

Sources of the capital increases during the year

Date	Amount	Cash	Reserves
14 April 2011	90,000,000	-	90,000,000

Date	Amount	Cash	Reserves
8 April 2010	140,000,000	-	140,000,000

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

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

Privileges on common shares representing share capital

There are no privileges on common shares representing share capital.

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

Registered capital system in the Company

None.

Repurchased own shares by the Company

None.

2.14 Insurance and investment contracts - classification

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

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

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

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

2.15 Insurance contracts and investment contracts with discretionary participation feature

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

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

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

2.16 Investment contracts with DPF

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

2.17 Liabilities

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

2.18 Income taxes

Corporate tax

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

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

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

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

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

Deferred tax

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

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

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

Transfer pricing

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

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

2.19 Employee benefits

Pension and other post-retirement obligations

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

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

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

- Technical deficit rate of 9.8% shall be used in the actuarial calculation of the value in cash, and

- Gains and losses of the funds stems from benefits covered by the aforementioned Law taken into accounts to calculate present value of the obligations.

(Currency: Turkish Lira (TL))

Employee termination benefits

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

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

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

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

Other benefits

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

2.20 Provisions

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

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

2.21 Revenue recognition

Written premiums

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

Claims paid

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

Commission income and expenses

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

Interest income and expenses

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

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

Trading income/expense

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

Dividends

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

2.22 Leasing transaction

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

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

2.23 Dividend distribution

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

2.24 Reserve for unearned premiums

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

- Reserve for unearned premiums are calculated on the basis of 1/8 for reinsurance and retrocession transactions that are not subject to basis of day or 1/24 due to application limitations,

- For commodity transportation policies with indefinite expiration dates, 50% of the remaining portion of the premiums accrued in the last three months, less any commissions is also provided as unearned premium reserves.

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

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

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

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

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

(Currency: Turkish Lira (TL))

2.25 Provision for outstanding claims

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.26 Mathematical provisions

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

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

2.27 Reserve for unexpired risk

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

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

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

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

2.28 Equalization provision

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

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

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

2.29 Related parties

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

2.30 Earning per share

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

2.31 Subsequent events

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

2.32 New standards and interpretations not yet adopted

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

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

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

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

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

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

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

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

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

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

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

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

3 Critical accounting estimates and judgments in applying accounting policies

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

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

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

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

Note 2.24 – Reserve for unearned premiums

Note 2.25 – Provision for outstanding claims

Note 2.27 – Reserve for unexpired risks

Note 2.28 – Equalization provision

Note 4.1 – Management of insurance risk

Note 4.2 – Financial risk management

Note 7 – Investment properties

Note 9 – Investments in subsidiaries

Note 10 – Reinsurance assets/liabilities

Note 11 – Financial assets

Note 12 – Loans and receivables

Note 17 – Deferred acquisition costs

Note 21 – Deferred income taxes

4 Management of insurance and financial risk

4.1 Management of insurance risk

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

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

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

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

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

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

Sensitivity to insurance risk

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

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

(Currency: Turkish Lira (TL))

Insurance risk concentrations

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

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

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

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

(Currency: Turkish Lira (TL))

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

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

4.2 Management of financial risk

Introduction and overview

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

- credit risk
- liquidity risk
- market risk

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

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

Credit risk

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

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

Doubtful receivables are monitored quarterly.

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

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

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

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

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

(Currency: Turkish Lira (TL))

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

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

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

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

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

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

Liquidity risk

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

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

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

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

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

(Currency: Turkish Lira (TL))

Management of the liquidity risk

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

Maturity distribution of monetary assets and liabilities:

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

(*) Equity shares amounting to TL 68,358,464 are not included.
(**) Provision for outstanding claims not subject to consistent distribution is presented in the "up to 1 month" column.

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

(*) Equity shares amounting to TL 88,121,861 are not included.
(**) Provision for outstanding claims not subject to consistent distribution is presented in the "up to 1 month" column.

(Currency: Turkish Lira (TL))

Market risk

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

Foreign currency risk

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

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

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

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

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

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

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

(Currency: Turkish Lira (TL))

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

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

Exposure to foreign currency risk

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

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

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

Exposure to interest rate risk

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

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

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

(Currency: Turkish Lira (TL))

Interest rate sensitivity of the financial instruments

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

	Profit or loss		Equity	
31 December 2011	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Financial assets held for trading	(110,193)	113,692	(110,193)	113,692
Available for sale financial assets	-	-	(3,052,003)	3,294,996
Total, net	(110,193)	113,692	(3,162,196)	3,408,688

	Profit or loss		Equity	
31 December 2010	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Financial assets held for trading	(1,030,147)	1,061,371	(1,030,147)	1,061,371
Available for sale financial assets	-	-	(6,720,312)	7,041,522
Total, net	(1,030,147)	1,061,371	(7,750,459)	8,102,893

Fair value information

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

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

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

Classification relevant to fair value information

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

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

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

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

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

(Currency: Turkish Lira (TL))

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

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

(*) As at 31 December 2011, securities that are not publicly traded amounting to TL 4,467,217 have been measured at cost.
(**) As at 31 December 2011, subsidiaries that are not publicly traded amounting to TL 746,207 have been measured at cost.

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

(*) As at 31 December 2010, securities that are not publicly traded amounting to TL 4,466,166 have been measured at cost.
(**) As at 31 December 2010, subsidiaries that are not publicly traded amounting to TL 746,207 have been measured at cost.

Equity share price risk

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

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

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

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

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

(Currency: Turkish Lira (TL))

Gain and losses from financial assets

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

Gains and losses recognized in the statement of equity, net:	31 December 2011	31 December 2010
Fair value changes in available for sale financial assets *(Note 15)*	(184,703,909)	23,186,347
Gains transferred from the statement of equity to the statement of income on disposal of available for sale financial assets (*Note 15)*	(22,041,441)	(6,494,858)
Total	(206,745,350)	16,691,489

Capital management

The Company's capital management policies include the following:

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

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

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

(Currency: Turkish Lira (TL))

5 Segment reporting

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

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

6 Tangible assets

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

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

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

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

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

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

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

There is not any revaluation on tangible assets.

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

(Currency: Turkish Lira (TL))

7 Investment properties

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

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

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

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

8 Intangible assets

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

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

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

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

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

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

(Currency: Turkish Lira (TL))

9 Investments in associates

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

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

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

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

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

(Currency: Turkish Lira (TL))

10 Reinsurance asset and liabilities

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

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

There is no impairment losses recognized for reinsurance assets.

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

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

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

(Currency: Turkish Lira (TL))

11 Financial assets

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

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

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

	31 December 2011			
	Face value	Cost	Fair value	Carrying value
Debt instruments:				
Government bonds – TL	6,300,000	6,405,400	6,241,725	6,241,725
Private sector bonds - TL	14,194,588	14,266,125	14,342,393	14,342,393
Eurobonds issued by Private sector	12,550,000	19,280,853	22,762,704	22,762,704
		39,952,378	43,346,822	43,346,822
Non-fixed income financial assets:				
Equity shares		26,792,767	21,525,159	21,525,159
Investment funds		21,342,882	21,078,879	21,078,879
		48,135,649	42,604,038	42,604,038
Total financial assets held for trading		88,088,027	85,950,860	85,950,860

	31 December 2010			
	Face value	Cost	Fair value	Carrying value
Debt instruments:				
Government bonds – TL	110,707,726	103,355,705	106,338,219	106,338,219
Government bonds – FC	5,000,000	5,926,077	7,889,161	7,889,161
Private sector bonds - TL	6,594,588	6,646,173	6,907,133	6,907,133
Eurobonds issued by Turkish Government	12,050,000	19,572,107	21,874,336	21,874,336
		135,500,062	143,008,849	143,008,849
Non-fixed income financial assets:				
Equity shares		31,334,638	30,725,798	30,725,798
Investment funds and TurkDEX-ISE 30 Index future contracts		8,305,389	10,173,145	10,173,145
		39,640,027	40,898,943	40,898,943
Total financial assets held for trading		175,140,089	183,907,792	183,907,792

(Currency: Turkish Lira (TL))

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

	31 December 2011			
	Face value	Cost	Fair value	Carrying value
Debt instruments:				
Government bonds – TL	131,687,927	137,649,601	140,463,816	140,463,816
Private sector bonds - TL	34,240,000	32,743,511	33,290,198	33,290,198
		170,393,112	173,754,014	173,754,014
Non-fixed income financial assets:				
Equity shares		35,403,075	46,833,305	46,833,305
		35,403,075	46,833,305	46,833,305
Total available-for-sale financial assets		205,796,187	220,587,319	220,587,319

	31 December 2010			
	Face value	Cost	Fair value	Carrying value
Debt instruments:				
Government bonds – TL	205,092,254	215,289,270	254,055,827	254,055,827
		215,289,270	254,055,827	254,055,827
Non-fixed income financial assets:				
Equity shares		30,711,786	57,396,063	57,396,063
		30,711,786	57,396,063	57,396,063
Total available-for-sale financial assets		246,001,056	311,451,890	311,451,890

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

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

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

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

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

(Currency: Turkish Lira (TL))

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

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

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

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

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

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

(Currency: Turkish Lira (TL))

12 Loans and receivables

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

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

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

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

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

Provisions for overdue receivables and receivables not due yet

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

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

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

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

13 Derivative financial assets

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

14 Cash and cash equivalents

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

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

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

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

15 Equity

Paid in Capital

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

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

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

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

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

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

(Currency: Turkish Lira (TL))

Legal reserves

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

The movements of legal reserves are as follows:

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

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

Extraordinary Reserves

The movement of extraordinary reserves is as follows:

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

Other profit reserves

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

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

Other capital reserves

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

Statutory reserves

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

(Currency: Turkish Lira (TL))

Foreign currency translation differences

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

Valuation of financial assets

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

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

16 Other reserves and equity component of DPF

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

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

17 Insurance contract liabilities and reinsurance assets

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

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

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

(Currency: Turkish Lira (TL))

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

	31 December 2011		
Reserve for unearned premiums	Gross	Ceded	Net
Reserve for unearned premiums at the beginning of the period	340,208,492	(3,434,329)	336,774,163
Premiums written during the period	991,993,078	(85,584,077)	906,409,001
Premiums earned during the period	(918,853,248)	78,593,221	(840,260,027)
Reserve for unearned premiums at the end of the period	413,348,322	(10,425,185)	402,923,137

	31 December 2010		
Reserve for unearned premiums	Gross	Ceded	Net
Reserve for unearned premiums at the beginning of the period	353,362,029	(3,016,194)	350,345,835
Premiums written during the period	855,302,911	(82,157,520)	773,145,391
Premiums earned during the period	(868,456,448)	81,739,385	(786,717,063)
Reserve for unearned premiums at the end of the period	340,208,492	(3,434,329)	336,774,163

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

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

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

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

Total amount of insurance risk on a branch basis

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

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

None.

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

None.

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

None.

Pension investment funds established by the Company and their unit prices

None.

Number and amount of participation certificates in portfolio and circulation

None.

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

None.

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

None.

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

None.

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

None.

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

None.

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

None.

Profit share distribution rate of life insurances

None.

(Currency: Turkish Lira (TL))

Deferred commission expenses

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

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

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

18 Investment contract liabilities

None.

19 Trade and other payables and deferred income

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

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

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

Corporate tax liabilities and prepaid taxes are disclosed below:

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

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

None

(Currency: Turkish Lira (TL))

20 Financial liabilities

None (31 December 2010: None).

21 Deferred Taxes

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

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

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

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

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

22 Retirement benefit obligations

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

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

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

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

(Currency: Turkish Lira (TL))

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

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

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

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

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

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

Plan assets are comprised of the following items:

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

(Currency: Turkish Lira (TL))

23 Provision for other liabilities and charges

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

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

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

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

24 Net insurance premium

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

25 Fee revenue

None

26 Investment income

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

27 Net income accrual on financial assets

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

28 Asset held at fair value through profit or loss

Presented in *"Note 4.2 - Financial Risk Management"*.

29 Insurance rights and claims

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

(Currency: Turkish Lira (TL))

30 Investment contract benefits

None

31 Other expenses

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

32 Operating expenses

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

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

33 Employee benefit expenses

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

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

34 Financial costs

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

35 Income tax expense

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

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

(Currency: Turkish Lira (TL))

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

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

36 Net foreign exchange gains

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

37 Earnings per share

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

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

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

38 Dividends per share

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

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

- 10% of legal reserve,

- 10% of first dividend to shareholders,

- Reserve for natural disasters and catastrophe might be allocated, if deemed necessary, based on the suggestion of the Board of Directors and decision of the General Assembly,

- After the allocation of first legal reserves, first dividend to shareholders and statutory reserves, 3.5% of the remaining amount is distributed to the Founder Shares and up to 3% of the remaining amount not exceeding three-wages is distributed to personnel, based on the suggestion of the Board of Directors and decision of the General Assembly.

- After the allocation of above mentioned reserves and dividends, second dividend to shareholders might be allocated, based on the suggestion of the Board of Directors and decision of the General Assembly.

(Currency: Turkish Lira (TL))

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

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

39 Cash generated from operations

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

40 Convertible bonds

None.

41 Redeemable preference shares

None.

42 Risks

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

43 Commitments

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

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

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

44 Business combinations

None

(Currency: Turkish Lira (TL))

45 Related party transactions

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

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

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

No guarantees have been taken against receivables from related parties.

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

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

(Currency: Turkish Lira (TL))

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

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

(Currency: Turkish Lira (TL))

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

(Currency: Turkish Lira (TL))

46 Subsequent events

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

47 Other

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

They are presented in the related notes above.

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

None

Subrogation recorded in "Off-Balance Sheet Accounts"

None

Real rights on immovable and their values

None

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

None

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

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

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

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

Contact Information

Millî Reasürans T.A.Ş.

Maçka Caddesi No: 35 34367 Şişli - İstanbul - Turkey

Phone +90 (212) 231 47 30
Fax +90 (212) 230 86 08
E-mail info@millire.com
millire@millire.com

Singapore Branch
24 Raffles Place #17-04A, Clifford Centre
Singapore 048621

Phone +65 6499 9340
Fax +65 6534 2884
E-mail kc.chew@millire.com

www.millire.com

Produced by Tayburn
Tel: (90 212) 227 04 36
www.tayburnkurumsal.com

www.millire.com