MİLLİ RE
since 1929

84th Year

Local Leader, Global Partner

2012 ANNUAL REPORT

Contents

General Information

Millî Reasürans Türk Anonim Şirketi
2012 Annual Report
Trade Registry No: 15744

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

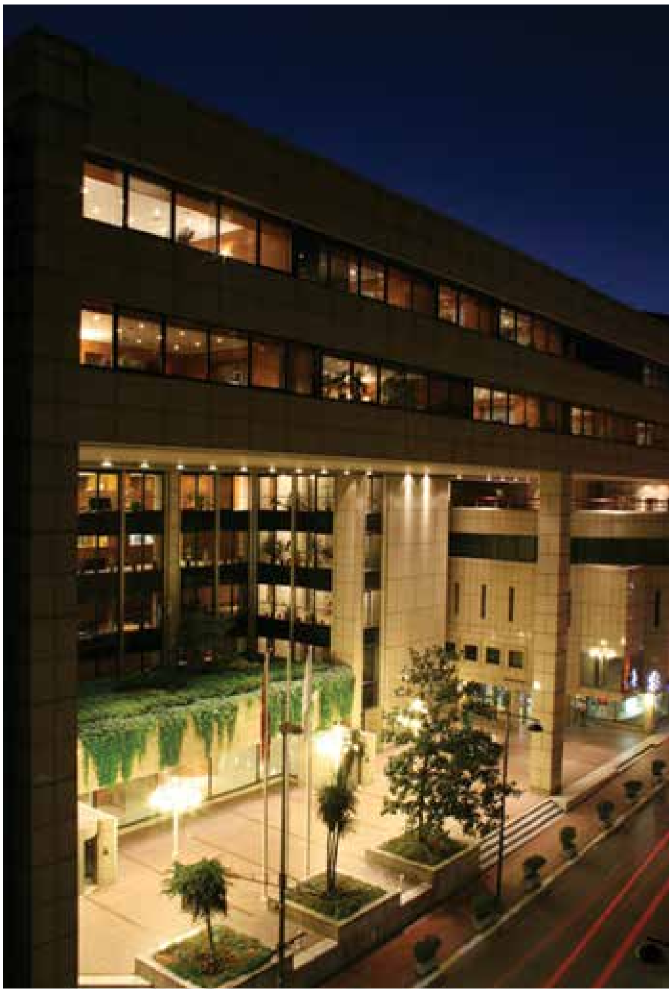
Vision

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.

The only national reinsurer that operates in the Turkish insurance market, Milli Reasürans (Milli Re) participates in reinsurance agreements in almost every lines of business (LOB) of domestic and foreign companies operating in the industry.



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

Having redefined its goals and strategies in alignment with the current conditions upon termination of the compulsory reinsurance system, Milli Re today continues to offer service as a prestigious and trusted reinsurer enjoying the capability to compete with the world's leading reinsurers on the international platform.

The only national reinsurer that operates in the Turkish insurance market, Milli Re participates in reinsurance agreements in almost every lines of business (LOB) of domestic and foreign companies operating in the industry. 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.

Milli Re has taken on significant roles in the formation and development of the Turkish insurance industry. The Company not only operated the compulsory reinsurance system, but also made numerous contributions to our country 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 1967 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.

Milli Re maintains its position as the market leader on the back of its long-standing professional experience, robust financial structure and successful performance.

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. With its performance closely monitored also by international rating agencies, Milli Re's financial strength rating (FSR) was determined by A.M. Best as B+ on October 10, 2012.

Standard & Poor's (S&P) affirmed Turkish national scale rating on Milli Re as "trAA", effective July 31, 2012. 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 performance, Milli Re will continue to offer its reinsurance capacity to local and international markets in the coming years.

Milli Re Singapore Branch

Within the frame of Milli Re's strategy to penetrate foreign markets, the Company, like many other internationally operating reinsurance companies, evaluated 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.

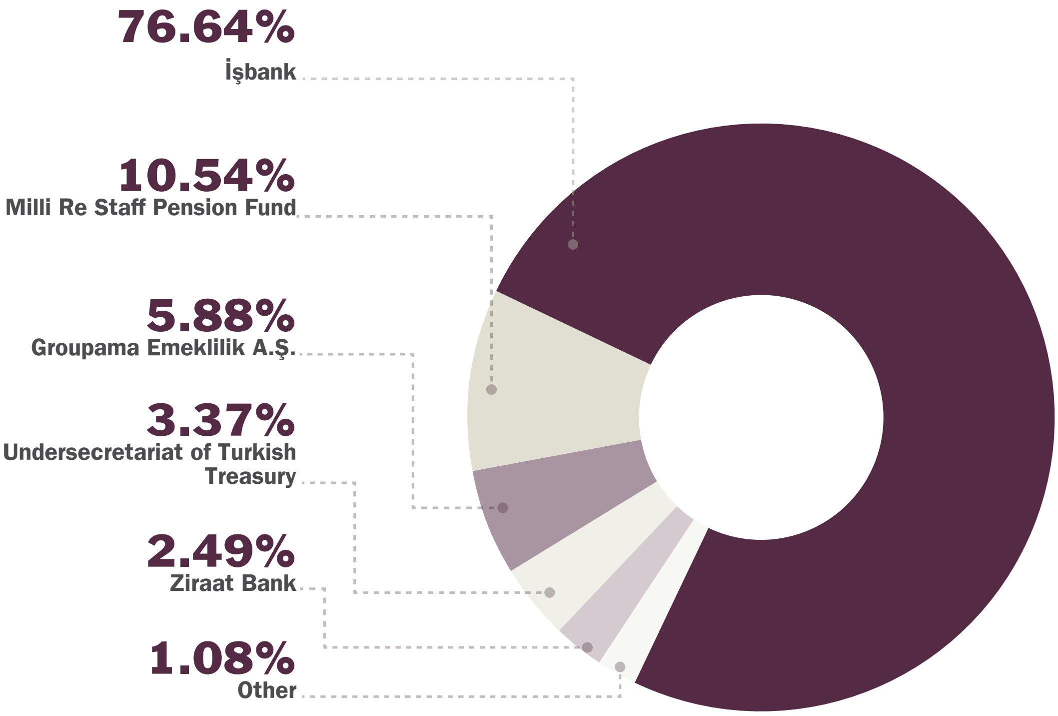
Having received the license for operation from the Monetary Authority of Singapore (MAS) in November 2007, the Singapore Branch rapidly pressed ahead with setting up basic infrastructure including the establishment of a data processing system and employment of personnel, and began writing business from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

Milli Re's Singapore Branch provides service with an experienced and competent team of 11 people.

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 Shareholder Structure



Shareholder	Value of Stake (TL)	Stake (%)
İşbank	471,323,816.85	76.64
Milli Re Staff Pension Fund	64,840,593.90	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	6,637,110.75	1.08
Total	**615,000,000.00**	**100.00**

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

Capital increases

There were no capital increases during 2012.

Changes in the shareholder structure in 2012

Millî Reasürans T.A.Ş. Mensupları Yardımlaşma Sandığı Vakfı (Milli Re Staff Pension Fund) acquired the shares worth TL 6,857.25 held by İlhan Altınkepçe on October 18, 2012 and TL 215.25 held by Kebire Ataşer on December 21, 2012. Thus, the share of Milli Re Staff Pension Fund rose to 10.54% corresponding to TL 64,840,593.90.

Changes in the Articles of Association during 2012

There were no changes in the Articles of Association during 2012.

Disclosures on preferred shares

There are no preferred shares.

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 Complex, 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 market, 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 new head office 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 the acquisition of Destek Reasürans.

2006
Milli Re began to write 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 35.5% 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 57.3%.

2012
In its 84th year in operation, Milli Re reached TL 615 million in capital, TL 1,764 million in total assets and TL 1,031 million in total premiums, while the share of premiums generated on the international portfolio was 24%.

As a result of its operations in 2012, our Company posted TL 98 million in profit, and increased its shareholders' equity by 47% to TL 658 million.

2012 has been quite benign in terms of natural catastrophes as compared with 2011. Given the significant year-on decline in insured losses arising from natural catastrophes that caused loss of lives and property in various parts of the world, and the global reinsurance capital that remained greatly unaffected by these losses, no major challenges were experienced in 2013 reinsurance renewals in terms of obtaining catastrophic reinsurance capacity.

Chairman's Message

The developments and the stability secured in the Turkish economy despite the continued stagnation, whose effects lived on particularly in the European Union area, reflected positively also on the insurance industry, and total premium production of the entire Turkish insurance industry was up 16% year-on-year to TL 20 billion in 2012.

In spite of this positive performance attained in premium production, the industry's technical profitability failed to capture the desired level also in 2012 due to a variety of reasons including excessive price-based competition that has been going on for a while, additional technical reserves calculated as a result of revised regulatory requirements, and the significantly increased amount and frequency of losses in the Fire branch, especially in the past year, in addition to unfavorable results in Land Vehicles Liability and Health branches. Compelled to focus on technical profit as a result of the significantly declined financial returns in the recent years, companies have been taking steps towards correct pricing of the risk and loss mitigation; although they are yet to bear their results, these steps represent remarkable positive signs for 2012 in the sense of setting competition in a rational and reasonable framework.

2012 has been quite benign in terms of natural catastrophes as compared with 2011. Due to the significant year-on decline in insured losses arising from natural catastrophes that caused loss of lives and property in various parts of the world, and the global reinsurance capital that remained greatly unaffected by these losses, no major challenges were experienced in 2013 reinsurance renewals in terms of obtaining catastrophic reinsurance capacity. With respect to 2013 renewals, the global reinsurance markets were characterized by the reinsurance capacity that outweighed the demand, which grew 10% year-on. This also positively influenced the catastrophe program renewals of the insurance companies active in our country, and no difficulties were experienced in obtaining capacity.

In 2012, our Company attained TL 1,031 million in premium production, up nearly by 4% year-on-year. While our local premium production showed a limited increase as a result of our underwriting policy under which we do not participate in the reinsurance agreements of branches such as Land Vehicles and Health that continually produce negative results, the ratio of premiums derived on our international business reached 24% of our total premium production thanks to our consistently growing international portfolio.

As a result of its operations in 2012, our Company posted TL 98 million in profit, and increased its shareholders' equity by a remarkable 47% to TL 658 million. This positive result driven primarily by our technical profit attests to the success of the underwriting policies pursued.

The successful performance displayed by our country from the second half of the 2000s, coupled with the high growth potential presented by our sector, led to an increased interest, and thus greater weight, of international capital in the Turkish insurance industry. Under the given conditions, our Company was able to sustain its leadership and expanded its business volume on the back of its long-standing know-how and experience. Our aim is to remain a preferred business partner not only in Turkey, but also in the international arena. I would like to extend my thanks first and foremost to İşbank, and to our shareholders, insurance companies, and all employees of Milli Re that have supported us in every possible way.

Mahmut MAGEMİZOĞLU
Chairman of the Board of Directors

Owing to our prudent underwriting strategy in respect of both local and international markets our underwriting profit was within the target.

Hasan Hulki YALÇIN

In 2012, our Company attained TL 1,031 million in premium production, up 3.9% year-on-year. 76% of this amount that was worth TL 782 million was derived on the local market, while 24% thereof that corresponded to TL 249 million was generated on international business.

During 2012, part of global economic risks was gradually reduced; deep-seated issues, however, are yet to be resolved.

Looking at the overall year, primary vulnerabilities that vest the global economy in a negative outlook are as follows:
• Uncertainty and lack of confidence nurtured by the concerns hovering over the public indebtedness in the euro area,
• Weaker-than-expected recovery in the issues related to public finance in the US, as well as in employment, housing and manufacturing,
• Sustained deceleration trend in the economic activity of emerging countries that also include China.

Continued presence of issues in developed economies exerts pressure on the global financial markets, and frequently leads to volatilities. The developing countries, on the other hand, displayed a stronger performance as a result of the relative recovery in the foreign trade and finance channels.

The IMF Report estimates a worldwide GDP growth rate of 3.2% in 2012, which is forecasted to show a slight increase to 3.5% in 2013. However, it is believed that the emerging economies will attain faster growth in 2013, as they did in general terms throughout the crisis period, and expand by 5.5%, and thus steer global growth.

General Manager’s Message

In Turkey in 2012, on the other hand, economic rebalancing became more evident, the inflation took a downturn, and current account balance exhibited improvement throughout the year. The fast rate of growth captured at 8.5% in 2011 was pulled down by the measures adopted, and the growth rate stood at 2.6% in the first three quarters of 2012.

When we look at the insurance industry, which is a field that is highly correlated with economic activity, we see that the Turkish insurance sector performed successfully in premium production in 2012. Based on year-end 2012 data, total premium production was up 16% year-on-year to TL 20 billion, and non-life branches took 86% share of total production. Although no major natural catastrophes occurred in Turkey, Fire and Natural Disasters branch joined the Land Vehicles and Land Vehicles Liability branches that habitually fail to generate technical profit in the recent years, due to the fire losses that have increased in amount and frequency. While it has been observed that companies tended to correctly price the risks and adopt measures to mitigate losses from the second half of the year, this approach is expected to bear its positive effects in the later years.

After 2011 that has seen numerous natural catastrophes and gone down in the history as the second costliest year for the world insurance markets, 2012 was a calmer year for the reinsurance companies. Apart from the Superstorm Sandy, which hit the East Coast of the United States in October and caused an estimated insured loss of USD 25 billion, and the drought disaster that again affected the US, no major natural catastrophes took place that would influence the global reinsurance markets. With the added help of the strict underwriting policies and the pricing discipline in place, it is possible to suggest that 2012 has been a globally profitable year for reinsurers. With the contribution of new additional resources, the reinsurance capital was at a satisfactory level throughout the year, and no significant problems were experienced in accessing reinsurance capacity, apart from certain exceptional regions.

The reinsurance programs of companies did not show a significant structural change in the local renewals for 2013. The costs of catastrophe reinsurance treaties increased somewhat due to increased earthquake exposures and coverage amounts, but no apparent problems were confronted in obtaining capacity.

In 2012, our Company attained TL 1,031 million in premium production, up 3.9% year-on. 76% of this amount that was worth TL 782 million was derived on the local market, while 24% thereof that corresponded to TL 249 million was generated on international business. We have strictly adhered to our Company policy to withdraw from branches that constantly yield losses particularly in the local market, and minimized our share in Land Vehicles, Land Vehicles Liability and Health branches that make up a substantial portion of the overall market’s premium production.

Owing to our prudent underwriting strategy in respect of both local and international markets our underwriting profit was within the target in 2012. In addition, total assets went up by 11% to TL 1,764 million in the twelve months to end-2012 and shareholders’ equity grew by 47% to TL 658 million, while our 2012 operations yielded a balance sheet profit of TL 98 million.

With the investments it has made into the Turkish insurance market, Milli Re has become one of the strongest players in the region. It is the primary goal of the Company to sustain and further improve its leadership position in the local market and become a preferred business partner in the international arena. I would like to thank our valuable shareholders, business partners and employees who have always supported us and contributed to the achievement of our Company’s targets.

Hasan Hulki YALÇIN
Board Member and General Manager

Board of Directors and Statutory Auditors

From left to right: 8 - 6 - 5 - 2 - 1 - 7 - 4 - 3 - 9

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 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 Mehmet Cahit Nami NOMER

Vice Chairman

Cahit Nomer holds a degree in Law from İstanbul 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, and since that date he has been the 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. Serving at İşbank's Board of Directors between 2003 and 2008, 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 Recai Semih NABİOĞLU

Director

Recai Semih Nabioğlu graduated from Gazi University, Faculty of Economic and Administrative Sciences, Department of Business Administration, and received his graduate degree in accounting and finance from the same university. Having started his career in 1990 at İşbank as an Assistant Specialist, he currently serves as Unit Manager at Equity Participations Division. To date, Mr. Nabioğlu functioned as Board Member and statutory auditor at various subsidiaries of İşbank. Currently holding a seat on the Boards of Directors of Anadolu Anonim Türk Sigorta Şirketi and Anadolu Hayat Emeklilik A.Ş., Recai Semih Nabioğlu has been serving as the Board Director responsible for Internal Systems at Milli Re since 24 August 2012.

7 Hasan Hulki YALÇIN

Director and General Manager

Hasan Hulki Yalçın attended TED Ankara College for his primary, secondary and high school education and graduated from the Middle East Technical University, Department of Economics. He then got his master's degree in international banking and finance from The University of Birmingham in the U.K. Mr. Yalçın joined İşbank as a member of the Board of Inspectors, where he worked for 14 years in different positions. He joined Milli Re in 2003 and attended various professional training programs abroad. Appointed as a member of the Board of Directors and General Manager on 16 January 2009, Hasan Hulki Yalçın is also a member of the Non-Life Management Committee of the Insurance Association of Turkey, and a member of the Board of Directors of 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 Canan YILMAZ

Statutory Auditor

Canan Yılmaz graduated from St. George's Austrian High School in 1994 and from İstanbul Technical University, Department of Mechanical Engineering in 1998. She received her MBA (in English) from the same university in 2000. Before starting her career in the financial services sector in 2001, she worked as an engineer at the leading companies of the national heating and ventilation industry. Canan Yılmaz joined İşbank in 2001 as an Assistant Specialist at the Equity Participations Division, where she currently works as Deputy Manager for Telecommunication and Logistic Subsidiaries at the same division. Ms. Yılmaz has been serving as a statutory auditor of Milli Re since 24 August 2012, as well as for Anadolu Anonim Türk Sigorta Şirketi, Anadolu Hayat Emeklilik A.Ş., and Nemtaş Nemrut Liman İşletmeleri A.Ş.

Fahriye ÖZGEN

Reporter of the Board of Directors

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 that 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 17 times during 2012, with all members attending 14 of these meetings, whereas one member was excused from three meetings, and one statutory auditor from one meeting.

Senior Management

From left to right: 4 - 6 - 5 - 1 - 2 - 7 - 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 İstanbul University and began his career at Milli Re in the Fire Insurances 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 Insurance Association of Turkey.

3 Hüseyin YUNAK

Assistant General Manager

Hüseyin Yunak holds a degree in Business Administration from İstanbul University and began his career in insurance with Milli Re in 1980. He studied Marine Insurance abroad and served as Manager of Marine Insurances 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 Insurance Association of Turkey and the Board Member of Turkish Lloyd Foundation. 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 Insurances 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 İstanbul 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 Insurance Association of Turkey, Şule Soylu has been appointed as Group Manager on 01 September 2011.

7 Vehbi Kaan ACUN

Group Manager

Vehbi Kaan Acun graduated from İstanbul University, Department of Economics in English. He started his career as an Assistant Inspector on İşbank's Board of Inspectors. After serving at İşbank for 8 years, he joined Milli Re in 2006. During his career at Milli Re, he also worked as a Coordinator in the company's Singapore Branch. He participated in various seminars and conferences abroad and functions as a Board Member of the Turkish Insurance Institute Foundation. Vehbi Kaan Acun has been appointed as Group Manager at Milli Re on 01 June 2012.

Internal Systems Managers

Internal Audit Manager	**: Ömer ALTUĞ**
Term of Office	: 1 year
Professional Experience	: 27 years
Departments Previously Served	: Accident, FAIR Pool
Academic Background	: Bachelor's Degree

Internal Control and Risk Management Assistant Manager	**: Hülya BULUT**
Term of Office	: 3 years
Professional Experience	: 15 years
Departments Previously Served	: Technical Accounting
Department Academic Background	: Doctoral Degree

Human Resources Applications

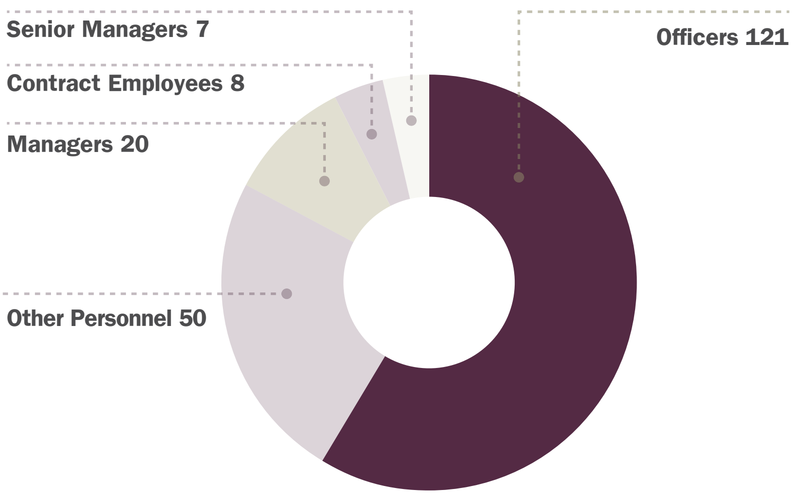
Milli Re possesses a qualified team of employees, who are dedicated to their jobs and the Company, and are open to continuous learning and constant development.

Human Resources Policy

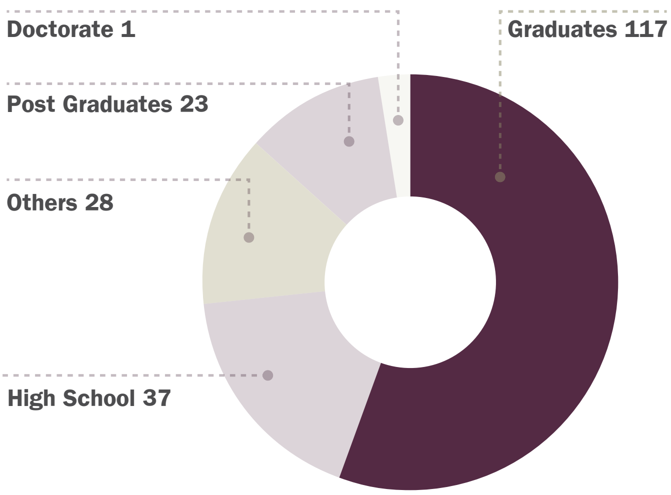
Recognizing that people make up one of the primary strengths that helps it achieve its targets, Milli Re possesses a highly qualified work force that is loyal to the corporation, committed to the job, open to continuous learning and development. The Company's Human Resources policy is built on the fundamental 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 2012, Milli Re had 206 employees on its payroll.

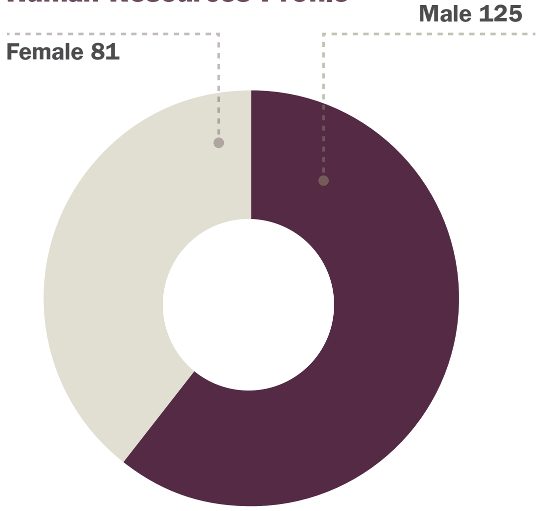
Employee Profile



Educational Background Profile



Human Resources Profile



Ever since its establishment, Milli Re had the policy of investing in its work force so that the staff is promoted to managerial positions.

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.

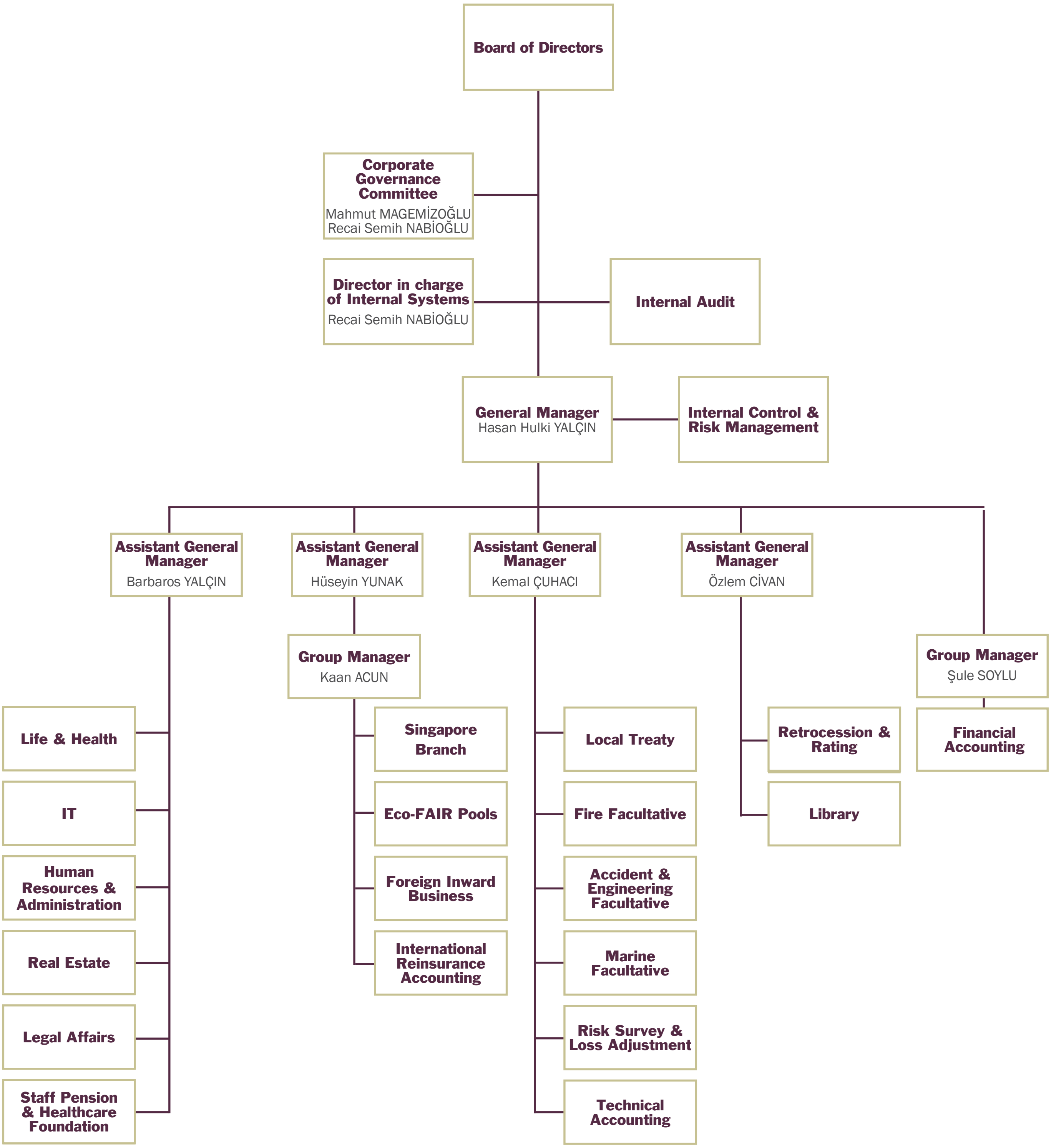
Training

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.

Organization Chart



2012 Annual Report Compliance Statement

We hereby represent that Millî Reasürans T.A.Ş. 2012 Annual Report issued for its 84th 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 August 7, 2007 by the Undersecretariat of Turkish Treasury.

February 26, 2013

Şule SOYLU Group Manager	Kemal ÇUHACI Assistant General Manager	Hasan Hulki YALÇIN General Manager	Mahmut MAGEMİZOĞLU Chairman of the Board of Directors

Annual Report – Compliance Opinion

To the Board of Shareholders of Milli Reasürans Türk Anonim Şirketi:
We have been engaged to audit the financial information presented in annual report of Milli Reasürans Türk Anonim Şirketi ("the Company") as of 31 December 2012. The annual report is the responsibility of the Company's management. Our responsibility, as independent auditors, is to express an opinion on the consistency of the financial information represented in the annual report with the audited financial statements and explanatory notes.

Our audit was conducted in accordance with the regulations on the audit of the financial information presented in annual report in conformity with no.26606 "Circular about the Financial Position of Insurance, Reinsurance and Private Pension Companies" ("the Circular"). 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 represented in the accompanying annual report, prepared in accordance with the Circular, is consistent, in all material respects, with the audited financial statements and explanatory notes of Milli Reasürans Türk Anonim Şirketi, as of 31 December 2012.

Istanbul, 28 February 2013

Akis Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik
Anonim Şirketi

Murat Alsan
Partner

Financial Rights Provided to the Members of the Governing Body and Senior Executives

The Company's Research & Development Activities

Financial Rights Provided to the Members of the Governing Body and Senior Executives

The Company's Board of Directors is composed of one Chairman, one Vice Chairman, five Board members, and two Statutory Auditors. The Top Management comprises of one General Manager, four Assistant General Managers, and two Group Managers. The chart below presents the benefits provided to the Senior Executives in 2011 and 2012 for comparison.

	2012	2011
Benefits such as salary, premium, bonus, dividend etc.	4,067,644	4,051,161
Travel, accommodation, entertainment expenses, and means in kind and in cash	194,866	165,681

The Company's Research & Development Activities

- As part of Milli Re's international expansion strategy, the Company evaluated the benefits of opening regional branches and 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. The Singapore Branch makes up an important part of the international portfolio of Milli Re.

- A strong marketing team was set up, composed of competent individuals to explore the business potential and ensure development of the portfolio within the frame of the international underwriting plan.

- The Micro Archive Software ShareStore was launched under the archived documents management project for digitalization of the incoming documents so as to ensure fast and reliable access thereto.

- In 2012, the Company began restructuring the IT processes within the frame of CobIT. The first phase of the initiative was brought to completion, and the second phase will be started in 2013. The processes have been structured within the framework of governance, risk and compliance under the efforts carried out so far.

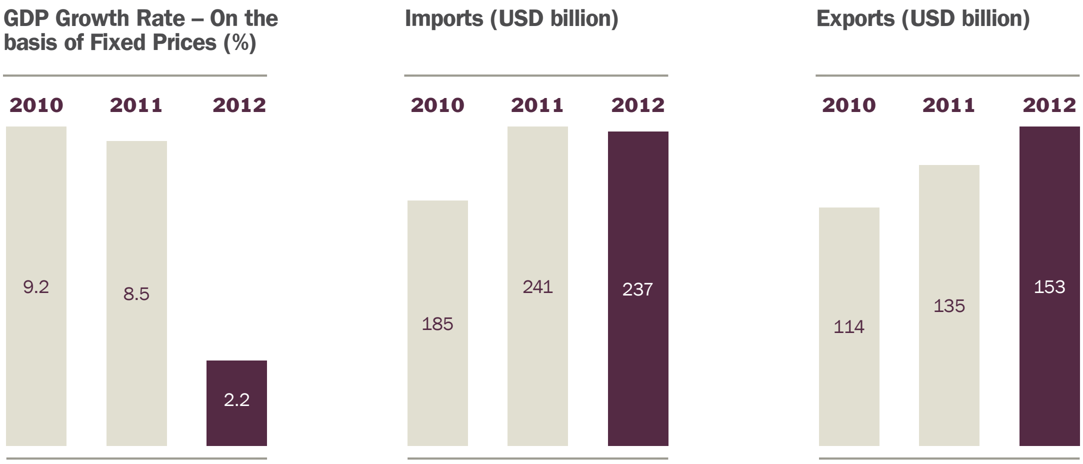
- Live use was started after the 6-month project work initiated for using SAP ERP software at the Company, which is aimed at accelerating financial reporting and improving work processes, as well as at integrated data recording and storage on the Finance side. Currently six modules are actively used at the Company: Financial Accounting and Control Module; Material Management Module, Asset Accounting Module, HR Module, Financial Asset Management Module, and the BW Reporting Module. Any changes that are made to the local and/or global legislation are integrated into the system, thus maximizing the productivity in accounting processes, free from any interruptions.

- In 2007, an earthquake model was developed using Remetrica, a dynamic financial analysis software. This stochastic model analyzes the earthquake exposure of the Company via proportional and non-proportional treaties in Fire and Engineering branches with the ceding companies, and computes the likelihood of thousands of different loss scenarios. Furthermore, the tool assesses how the Company's gross and net results are affected by catastrophe losses obtained from the simulations made.

- Within the frame of the Contingency Management legislation, Business Impact Analyses are conducted, the Contingency Plan is updated, and trainings and drills are carried out every year. In this context, all of these activities have been performed in 2012. In relation to work processes and information systems, connection was established from the Company's servers in Bayraklı/İzmir to Suadiye Miltaş Sports Complex and a drill was carried out on December 22, 2012. The exercise confirmed that the servers specified in the Contingency Plan and the documents stored thereon are accessible as required by the workflows.

Company Activities and Major Developments in Activities

The innovative monetary policy tools introduced by the Central Bank of the Republic of Turkey (CBRT) continue to bear positive impacts on inflation and financial stability.



In the first three quarters of 2012 during which economic activity continued to decelerate, the contribution of external demand to growth was increased by targeting to balance the year-end 2012 figures of domestic and external demand in growth composition. On the other hand, the slowdown in the rate of increase of tax revenues and the acceleration in non-interest expenses led to a relative weakening in the budgetary performance.

The GDP went up by 3.4%, 3% and 1.6% in the first, second and third quarters of 2012 respectively, on an annual basis. Having grown by 8.5% in 2011, the national income showed 2.2% rise as of year end 2012.

While the data for the third quarter of 2012 reveal that the deceleration in economic activity persists, leading indicators point at a moderate recovery trend in the consumption demand for the last quarter of the year. The innovative monetary policy tools introduced by the Central Bank of the Republic of Turkey (CBRT) continue to bear positive impacts on inflation and financial stability. The Medium Term Plan (MTP) released in October estimated the growth of national income for 2012 at 3.2% in keeping with the forecast that the contribution of net goods and services export to growth would decline, whereas domestic demand would relatively improve.

Foreign trade and current account balance improved.
The continued rise in export, which followed a different course upon penetrating new markets to counter the contracted European market, and the sustained decline in imports have pushed foreign trade deficit down to USD 84 billion as at December 2012. The ratio of exports to imports went up to 64.5%. Paralleling the improved foreign trade balance, the current deficit amounted to USD 48.9 billion. The Medium Term Plan (MTP) estimates that the ratio of current deficit to the GDP, which was 10% in 2011, will stand in the order of 7% at year-end 2012.

The downturn in inflation went on.
Having gone up as high as 11.1% in April 2012, the rise in annual consumer prices index (CPI) displayed a rapid decline from May 2012 and went down to single digits, after which it remained flat. The higher-than-projected inflation in the first six months of the year was driven by the increased oil and unprocessed food prices and public price adjustments. The downward trend in inflation began to become evident in the fourth quarter of the year, and the rise in CPI in December 2012 fell to 6.16% as a result of the food inflation that remained well below the seasonal average. On the other hand, the annual rate of PPI inflation was just 2.45% in 2012.

As the rate of annual increase in basic commodity prices kept going down, service prices maintained their recent moderate level. It is possible that the inflation will float above the target in the period ahead, owing, particularly, to the rises in energy prices.

Strengthening the structural reforms to ensure the sustainability of the fiscal discipline and reduce the saving deficit will support macroeconomic stability in Turkey in the medium term.

Turkey's long-term credit rating was upgraded to investment grade.
In November, Fitch, the international rating agency, upgraded Turkey's long-term credit rating from BB+ to BBB-, investment grade, and announced the outlook on the credit rating as stable. The rating agency cited reduced short-term macrofinancial risks, declining government debt burden, a sound banking system, favorable medium-term growth prospects and a relatively wealthy and diverse economy as the reasons for the upgraded rating. This marked the first time in 18 years a credit rating agency upgraded Turkey's credit rating to investment grade.

CBRT's new policy approach observes financial stability.
Having adopted a new policy mix by expanding the inflation targeting regime so as to cover also financial stability toward the end of 2010, the CBRT kept employing the interest rate policy, liquidity management and required reserves as active policy tools throughout 2012.

Monitoring not only credit expansion but also the excessive volatility in real exchange rates in an effort to support macroeconomic and financial stability, this approach has been highly successful in alleviating the negative effects of the changes in capital flows upon domestic markets in the past two years. Adopting an integrated perspective to oversee macro risks, this policy approach and other authorities helped take the domestic demand under control in Turkey, thereby ensuring a smooth soft landing in economic activity.

Recent data releases confirm that the rebalancing between the domestic and external demand continues as envisaged. While the final domestic demand pursues a moderate level, export preserves its upward trend despite the weak global growth. Along this line, the current deficit keeps shrinking gradually.

Forecasts
In the year ahead, uncertainties about the global economy and the fluctuations observed in capital flows will remain important with respect to financial stability.

The CBRT stated that the core inflation indicators will continue with their downward course in the period ahead; yet, the CBRT underlined that the effects of the increments in administered prices on pricing behavior need to be watched closely.

The developments in financial conditions such as accelerated capital flows, declined interest rates and improved lending conditions point at further increased momentum of loans and domestic demand in the period ahead, and call for a sustained cautious approach to macrofinancial risks. As a result of all these assessments, the CBRT states that it will be appropriate to keep the interest rates low on one hand, while persisting with macro precautionary measures in an effort to balance the financial stability risks. In this parallel, it was deemed fitting to take measured tightening steps in relation to required reserves, while reducing the interest rate corridor at a limited extent.

Prescribing that the flexibility of the monetary policy need to be preserved in either direction due to the prevailing uncertainties regarding the global economy, the CBRT said that the impact of the measures undertaken on credit, domestic demand and inflation expectations will be carefully monitored, and that the amount of Turkish Lira funding will be adjusted upwards or downwards, as needed.

Maintaining the cautious monetary stance in public finance and financial services sector policies is critical for the Turkish economy to preserve its resilience against the global imbalances. Strengthening the structural reforms to ensure the sustainability of the fiscal discipline and reduce the saving deficit will support macroeconomic stability in the medium term. This will also provide more flexibility for monetary policy and contribute to social welfare by keeping interest rates of long-term government securities at low levels. In this respect, steps towards the implementation of the structural reforms envisaged by the Medium Term Program (MTP) remain to be of utmost importance.

Sources: TurkSTAT, CBRT, Undersecretariat of Turkish Treasury

In 2012, the Turkish insurance industry registered TL 20 billion in total premium production in life and non-life branches, up by approximately 16% year-on-year.

In 2012, the Turkish insurance industry registered growth in real terms, although not matching the performance in 2011, and registered TL 20 billion in total premium production in life and non-life branches, up by approximately 16% year-on-year.

The long-going distribution of premiums generated on life and non-life segments in the Turkish insurance market persisted in the same manner in 2012. While life branch constitutes 14% of premium production, non-life business accounted for the remaining 86%. Although there is some increase in life policies issued in conjunction with bank loans in the recent years, premiums on these policies fail to provide the ground for the life branch to make a leap. In addition, the Private Pension System (PPS), which is administered independently from the insurance system and is directed towards steering the society to saving up, is an important factor that prevents the development of life insurance. This is clearly revealed by the savings accumulated in the PPS, which significantly outstrip the life branch premiums.

The non-life segment has long been characterized by the fact that 75% of premiums in this branch are produced by the top 10 companies, where 40 companies are active. The concentration of the premium on certain companies, coupled with the regulatory requirements imposed by the Turkish Treasury in parallel with Solvency II, might bring about additional capital need for small- and medium-sized companies, which gives rise to a structure that is suitable for mergers and acquisitions.

Another characteristic of the Turkish insurance industry is that approximately 63% of the total paid-in capitals of active companies are held by international groups. Although the foreign capital inflow that gained speed upon the improvement of the Turkish economy has stagnated due to the economic crises that affect the world and the European Union area at times, the insurance market remains in the area of interest of the foreign capital owing to the high growth potential it presents. The interest of international capital in the insurance sector is clearly manifested in the fact that only one company among the top 10 companies which constitutes 75% of non-life premium production is backed by national capital, whereas the capitals of the remaining nine are held either fully or partially by foreigners as at year-end 2012.

During 2012, profitability in the Turkish insurance industry did not achieve the desired level because of a variety of reasons. The sector's profitability was negatively impacted by the excessive price competition, the extended coverage that served to increase losses rather than generate premium income, additional burdens imposed by technical reserves, ill-judged approaches to the pricing and selection of risks, and the increased amount and frequency of losses. However, the market started showing signals of development including the correct pricing of risk and loss mitigating measures particularly in the Fire, Land Vehicles and Land Vehicles Liability branches. These developments are expected to bear positive impacts on the sector over time.

Looking at the characteristics of the premium distribution in the market, approximately 55% of premiums are generated on individual insurance branches including Life, Health, Housing (including compulsory earthquake insurance) and Land Vehicles insurances. In addition, the fact that a substantial portion of premiums in Life, Land Vehicles and Housing branches are linked to bank loans and Compulsory Earthquake insurance is a numeric manifestation that the individuals' interest in the insurance system in our country depend not on their perception of insurance as a necessity, but on a reason that pushes them to obtain insurance cover. On the other hand, it should also be noted that compulsory insurance types, which serve as a significant source of premiums in developed Western countries, are not common in our country. Compulsory earthquake insurance and compulsory Land Vehicles Liability policies account for 95% of the premiums on compulsory insurance types, which get around 20% share of total premium production.

No significant change, on the other hand, is observed over the years in the distribution of premiums by branches. The share of Land Vehicles and Land Vehicles Liability branches to total premium production in non-life branches was up by 6.5% year-on-year, and rose to 49.5%. This was driven mainly by the correct pricing of the risk by the insurers. On the other hand, it is expected that the technical reserves in the Land Vehicles Liability branch, whose implications are revealed over a longer term as compared with the Land Vehicles branch, will keep creating negative effects on the balance sheets of companies.

Fire and Natural Disasters has been another branch that has achieved real growth in 2012. The key reason behind the increased premiums is the positive reflection of growth in national economy upon the industry. On another wing, the highly noticeable negative impact of the price competition that has gone on until recently on balance sheets, and the significant rises in the amount and frequency of fire losses in the past two years compelled additional measures on the side of insurers. It is estimated that the positive effects of these measures adopted from the second half of 2012 will be felt significantly in the years ahead, while they may not be so influential on the results of this year.

18% premium growth in the General Losses branch, which is substantially made up of Engineering and Agriculture insurances that account for 87% of this branch, is a combined result of the positive developments regarding both of these two branches. Engineering insurance is directly affected by the positive developments in national economy, and the growth in engineering projects launched is reflected equally on the industry's premium production. Similarly, the majority of the growth in this branch arose from construction and erection insurances, rather than from machinery breakdown and electronic equipment insurances. On the other hand, agriculture branch also showed real growth in 2012, which was driven mainly by the increases in risk premiums and in the number of agricultural enterprises registered with the Agricultural Insurance Pool (TARSİM).

Despite the positive economic developments in 2012, Marine insurance did not register an increase that would reflect this performance. Failing to capture real growth with an approximate rise of 5.5% in premiums, this branch was negatively influenced by the implications of the political developments that resulted from the Arab Spring upon Turkey's foreign trade, as well as by the sanction clauses imposed by the United Nations, USA, European Union and the UK.

Making up nearly 13% of total non-life premiums, Health insurance saw a year-on rise by approximately 12%. Although relative improvements are observed in the loss ratio on an annual basis, the Health branch remains as a problematic branch for the insurance companies in view of the agency commissions.

Liability insurance started developing particularly upon the recent introduction of new compulsory insurance types. However, the premium growth in this branch failed to match the expected level because of incorrect pricing of risks, a result of competition in the Third Party, Employer and Professional Liability insurances. It arises as an absolute necessity that a healthy balance must be established between liabilities assumed by the insurers and premiums they collect in return in the coming years.

Premium Income of the Market

Branches	2012 Premium Income (TL)	Share (%)	2011 Premium Income (TL)	Share (%)	Change (%)
Casualty	669,900,492	3.38	662,750,825	3.86	1.08
Health	2,237,100,853	11.28	1,998,946,945	11.65	11.91
Land Vehicles	4,533,678,699	22.87	3,787,423,404	22.06	19.70
Railway Vehicles	256,342	0.00	817,289	0.00	(68.64)
Air Vehicles	49,384,012	0.25	69,392,164	0.40	(28.83)
Sea Vehicles	133,166,490	0.67	122,273,303	0.71	8.91
Transport	377,880,621	1.91	358,509,670	2.09	5.40
Fire and Natural Disasters	2,645,119,291	13.34	2,309,346,875	13.45	14.54
General Damages	1,741,950,686	8.79	1,474,292,549	8.59	18.16
Land Vehicles Liability	3,937,163,237	19.86	2,974,128,684	17.33	32.38
Air Vehicles Liability	78,766,956	0.40	75,774,884	0.44	3.95
Sea Vehicles Liability	438,040	0.00	261,366	0.00	67.60
Public Liability	419,997,806	2.12	386,298,119	2.25	8.72
Credit	74,468,868	0.38	51,359,824	0.30	44.99
Fidelity Guarantees	19,175,517	0.10	12,346,371	0.07	55.31
Financial Losses	135,549,791	0.68	140,355,871	0.82	(3.42)
Legal Protection	58,086,280	0.29	52,653,354	0.31	10.32
Support	3,739,251	0.02	2,475,594	0.01	51.04
Total Non-Life	**17,115,823,232**	**86.33**	**14,479,407,092**	**84.35**	**18.21**
Life	**2,710,826,393**	**13.67**	**2,685,674,090**	**15.65**	**0.94**
General Total	**19,826,649,625**	**100.00**	**17,165,081,182**	**100.00**	**15.51**

Source: Insurance Association of Turkey

The first three quarters of 2012 were relatively benign in terms of catastrophe losses, creating an expectation that the reinsurance market would close the year with strong underwriting results.

Following 2011, which was the costliest year in terms of catastrophe losses, the first three quarters of 2012 was relatively benign with expectations that the reinsurance market would close the year with strong underwriting results. Although Superstorm Sandy, which made landfall in the US in October 2012, was considered as the second largest hurricane loss in the US with above USD 60 billion economic and USD 20-25 billion insured loss, it was not enough to trigger a market-wide hardening. Together with the current loss estimates for Sandy, total natural catastrophe losses for 2012, including agricultural crop losses in the US caused by draught totaling around USD 15-17 billion insured losses, series of tornados in the US during March with insured losses in the region of USD 2.5 billion, two earthquakes in Italy's Emilia Romagna region in May resulting USD 1.6 billion losses, are estimated to be about half of USD 120 billion loss sustained in 2011. Consequently, catastrophe losses in 2012 did not have a capital impact on the reinsurance market and have pushed rates up in loss affected areas and lines only. Nevertheless, there was stability in rates on property classes with modest risk-adjusted rate reductions in programs with good loss and price records, while some rate increases were observed for specific loss or exposure issues.

Reinsurance capital was at a satisfactory level, supplemented to a large extent by new capital providers who perceive catastrophe risks as a non-correlated investment alternative, due to the fact that more and more players started using capital market solutions in addition to traditional reinsurance purchase. This trend had a tempering effect on expected rate increases. On the other hand, against the on-going sovereign debt crisis in developed markets and macro-economic uncertainty as well as low investment returns, (re)insurance markets were compelled to focus on technical profitability, thus strive to maintain underwriting discipline, as poor results can no longer be offset by earnings on the asset side. In addition to this, further sophistication of catastrophe modeling and higher capital requirements by regulators resulted with a more disciplined approach in reinsurance purchase and also in pricing.

In general, international risk adjusted property catastrophe rates remained flat or showed up to 5% reductions in respect of loss-free programs. Throughout 2012, US programs generally saw rate increases between 5-15% for clean renewals, with more significant increases for loss affected programs. In January 2013 renewals, risk adjusted rates in US for loss-free accounts ranged between flat to up to 5% reductions, while loss affected programs saw above 10% rate increases. Any further reductions in rates were moderated by Superstorm Sandy. On the other hand, a number of large programs impacted by Sandy are yet to be renewed in mid-year.

During 2012, rates in Europe tended to be flat to modestly up. Sandy did not have a particular effect in Europe; therefore there was increased capacity for all catastrophe perils during 2013 renewals and programs enjoyed modest risk adjusted rate decreases. In view of the debates on model changes, both clients and reinsurers were inclined to use a blended approach to catastrophe models and parties increasingly developed their own views of risk as a market practice.

Asia experienced a relatively benign year in terms of catastrophe activity. 2012 renewals in Japan showed significant rate increases up to 50% for earthquake and around 15% for windstorm and flood on risk adjusted basis. During January 2013 renewals, stable to downward pricing trends were observed in many territories mainly as a remedy to the restrictions in coverage and territories and stricter terms and conditions in many programs imposed during 2012 renewals, with solid reinsurance capacity enhanced by a few new players especially in markets like China.

The prevailing macroeconomic uncertainties in the markets will push the companies to pursue a more disciplined attitude in their acceptances and pricing in 2013.

In Australia and New Zealand, main issue in mid-year renewals was the adverse developments in Earthquake loss reserves resulting with a further hardening in the region of 20% in Australia and above 40% in New Zealand for programs where loss reserves have deteriorated.

Event limits in pro-rata treaties have become a standard in the Middle East and North Africa, with an increased application of SRCC clauses, restriction on “interests abroad” and facultative inwards business. There were some reductions in commissions for poor performing treaties. On the non-proportional side, rates were either flat or showed moderate upward movement in the Middle East, with declines in North Africa for loss-free programs. Larger increases were witnessed in relation with the loss experience of specific programs impacted by losses in both regions.

There was no capacity problem for retrocession treaties, with traditional reinsurance capacity at adequate level and greater utilization of capital market solutions. Although risk carriers continued to impose named territories and perils for most programs, worldwide cover was also available at a price.

On the other hand, 2012 was one of the worst years for marine. In addition to losses from Costa Concordia in January 2012 and the deterioration of other previous years’ losses, Sandy is expected to have a massive impact on the marine market especially in lines such as Yachts and Pleasure Craft, General Cargo and Specie and Inland Marine. Consequently renewals were very late under the uncertainty about the quantum of losses and with minimum 15% rises on loss affected programs.

2012 was another strong year for the catastrophe bond market with 35% year-on increase in issuance. On the other hand, there were a number of mergers and acquisitions, reflecting the interest of hedge funds in (re)insurance market, small to mid-sized insurers’ need for scale and comparably low market values of these companies. These developments are likely to prevail throughout 2013 as well.

As the markets continue to be challenged by macro-economic uncertainties, diminishing financial investment returns, threat of a series of major catastrophes and the increased cost of capital, companies will need to focus heavily on underwriting performance, flexibility to adapt to changing conditions and capital management in 2013.

Reinsurance programs of insurance companies remained unchanged in 2013 renewals, and companies continued their underwriting with the same reinsurance structures.

Although no major natural catastrophes occurred in Turkey in 2012, 2013 renewals of the Turkish insurance industry was a period of certain problems for the insurance companies depending on the economic crisis whose negative effects relatively eased and on the different approaches taken by reinsurers particularly with respect to proportional reinsurance contracts.

Majority of the insurers active in Turkey obtain their risk protection via proportional reinsurance contracts written on bouquet basis. Reinsurance programs of insurance companies remained unchanged in 2013 renewals, and companies continued their underwriting with the same reinsurance structures. The reinsurers perceived it as a positive development that insurers took an approach toward correctly pricing the risks from the second half of 2012 and they put emphasis on certain measures aimed at mitigating losses; however, some issues arose in renewals due to several reasons including the ceded premiums that remained below the desired level because of the price-based competition, the increased frequency and amount of losses, and the insufficient sum of premiums generated for the earthquake risk underwritten. Milli Re increased its involvement in reinsurance contracts on bouquet basis from 26% last year to 27% this year, and continued giving support to the proportional reinsurance contracts of the local market.

Premiums ceded to surplus reinsurance agreements written on bouquet basis showed some differences on the basis of branches as compared with the previous year. While 7% rise is expected in estimated premium income, the share of Fire surplus agreements to the total bouquet went down from 54% last year to 50% for 2013. Underpinning this decline is the cessions to General Accident and Engineering reinsurance contracts that soared by respective shares of 23% and 25%, thereby getting higher shares of total premium, as well as the companies' tendency to maintain higher retentions in conjunction with the companies' increased focus both on civil and commercial small and medium-sized risks.

25% growth in the cessions to proportional reinsurance treaties in the Engineering branch brought the share of this branch to the bouquet total premium from 24% to 28%. Growing number of infrastructure, energy, housing, industrial and commercial facility projects launched in the recent years in Turkey created a paralleling effect on the premiums produced in this branch, which, in turn, influenced the cessions of the Engineering branch that presents the lowest retentions in the industry, to proportional reinsurance contracts.

Land Vehicles Own Damage and Land Vehicles Liability branches are handled as a whole under Quota Share reinsurance treaties. Insurance companies retain their risks in these branches almost in their entirety. Financial statements of insurers suffer from negative effects of the quite high loss ratios, coupled with the technical reserves that are required to be set aside due to the long lead-time of settlement payments in the Liability sub-branch. For this reason, Milli Re minimized its participation in the treaties for these branches within the frame of its long-standing policy, and reduced the premium ratio it would generate through proportional and non-proportional reinsurance treaties to 4%. A substantial portion of this premium originates from the Company's involvement in non-proportional contracts.

It is forecasted that the estimated premium income generated from General Accident reinsurance treaties will increase by a remarkable 23% in 2013 renewals. This is largely due to the premium increases in Liability sub-branches, for which insurers tend to turn to reinsurance at a higher extent, although it may vary according to the respective portfolios of companies. In conjunction with the high level of loss ratios, our Company intends to build on the measures taken towards driving insurers to keep higher retentions through future renewals.

In 2013 renewals of catastrophe reinsurance treaties, insurance companies were confronted with the issue of increased costs, rather than with difficulties in the placement of these agreements, which are being purchased to provide coverage for retained risks under the Fire and Engineering proportional reinsurance agreements. While the amount of coverage insurers purchased was EUR 3.9 billion in 2011, it was up by 13% to EUR 4.4 billion this year, as a result of the high 24% rise in terms of Euro in Key Zone risks, which the insurance companies base their programs on. The amount of premium they paid for this coverage was circa EUR 104 million. There was an increase in cost since the overall rate of the coverage purchased remained flat with that of last year's. However, the increased cost should be regarded normal in view of the high increases in earthquake exposures and the economic crisis that still goes on, with its effects relatively diminishing.

Milli Re cut back its participation in catastrophe reinsurance treaties in terms of the liability underwritten from 12% in 2011 to 10% in 2012. This step was taken within the frame of the Company's underwriting strategy.

The Company participates in a great majority of proportional and non-proportional reinsurance agreements of companies backed by either local or foreign capital in the Turkish insurance market, and leads most of proportional reinsurance treaties. This endorses our Company's know-how, its robust financial structure, and its prestige not only in the domestic market, but also in the face of international reinsurers.

Financial Strength Figures

Financial Ratios (%)	2008	2009	2010	2011	2012
1. Capital Adequacy Ratios					
Gross Premiums/Shareholders' Equity	127	107	107	222	157
Shareholders' Equity/Total Assets	48	49	49	28	37
Shareholders' Equity/Net Technical Provisions	101	110	106	41	64
2. Asset Quality and Liquidity Ratios					
Liquid Assets/Total Assets	71	70	54	56	59
Liquidity Ratio	142	145	112	81	99
Current Ratio	163	169	139	103	117
Premium and Reinsurance Receivables/Total Assets	10	12	12	15	10
3. Operational Ratios					
Retention Ratio	94	92	90	91	90
Paid Claims/Paid Claims+Outstanding Claims	63	60	59	52	53
4. Profitability Ratios					
Loss Ratio (Gross)	80	85	74	96	70
Expense Ratio (Gross)	14	26	25	24	26
Combined Ratio (Gross)	94	111	99	120	96
Loss Ratio (Net)	84	81	79	103	76
Expense Ratio (Net)	15	28	27	26	28
Combined Ratio (Net)	99	109	106	129	104
Profit Before Tax / Gross Written Premiums	19	14	9	(15)	10
Gross Financial Profit / Gross Written Premiums	15	12	6	5	-
Technical Profit / Gross Written Premiums	5	2	3	(20)	10
Profit Before Tax / Average Total Assets	12	8	5	(9)	6
Profit Before Tax / Average Shareholders' Equity (Except Profit)	28	18	11	(22)	19

An Assessment of Financial Strength, Profitability and Solvency Margin

Milli Re generated TL 1,031 million in premium in 2012, up 3.9% year-on-year. Claims paid by the Company also increased by TL 41 million and reached TL 721 million.

Details on technical results are presented in the section "Milli Re Technical Results in 2012".

The sum of the Company's Cash and Financial Assets correspond to 60% 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 legal and commercial obligations without experiencing any financial difficulty in 2012.

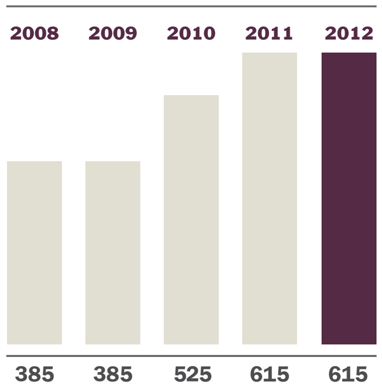
An Assessment of the Company Capital

The Company's capital adequacy is computed in accordance with the principles set out in the "Regulation on the Measurement and Evaluation of Capital Adequacy of Insurance, Reinsurance and Pension Companies" published in the Official Gazette issue 27156 dated March 1, 2009. According to the calculation based on the principles specified by the Regulation, 2012 capital adequacy result yielded a surplus of TL 118.5 million.

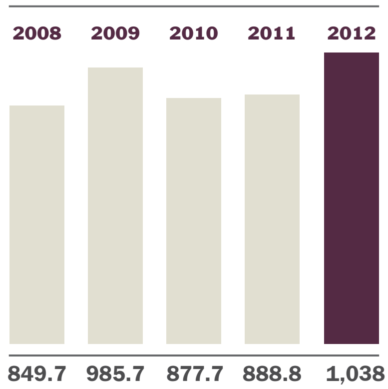
The Company possesses adequate shareholders' equity to cover any losses that might result from its existing liabilities and potential risks.

Capital Adequacy (TL million)	2012
Required Capital	271.6
Computed Capital	390.1
Capital Adequacy Result	118.5

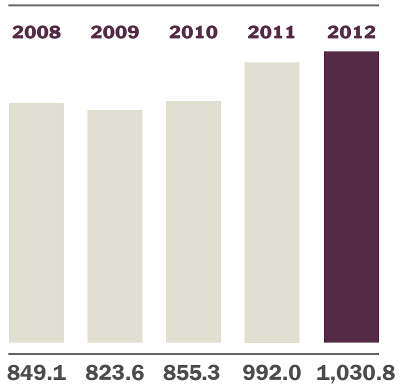
Paid-up Capital (TL million)



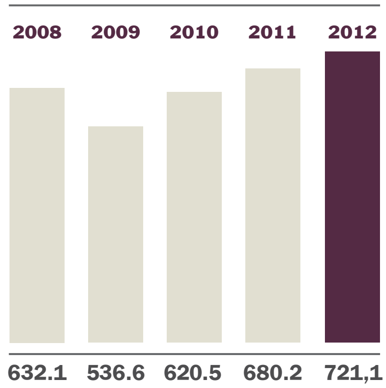
Liquid Assets (TL million)



Premium Income (TL million)



Paid Claims (TL million)



Milli Re Technical Results in 2012

Milli Re attained 4% growth year-on in total premium production in 2012, and generated 76% of total premium on local and 24% on international business. There was limited increase in the Company's local premiums due to its long-going policy of minimizing its involvement in loss-yielding business, whereas international premiums expanded by 16% in conjunction with the expanded premium volume in the markets where the Company is active, the increased costs in catastrophe reinsurance treaties, which the Company writes from the international markets and fluctuating exchange rates.

Information on Milli Re's local and international acceptances is given in detail in the relevant sections of the Report, and the negative or positive performance each branch attained in premium, loss, and profitability is presented in comparison with the prior year. However, the most important point that needs to be mentioned as the overall result is the fact that the Company booked TL 98 million balance sheet profit in 2012. Primary contributors to this positive result included the reflection of the steps taken for improving the underwriting portfolio, the recognition of high technical reserves as an income item this year, which were a factor in the loss posted last year, the regulatory change for setting aside Provision for Unexpired Risks, and the fact that 2012 has been a quiet year in terms of catastrophe losses.

Gross Premium Income and Breakdown of Branches (TL)

Branches	2011	Share (%)	2012	Share (%)	Change (%)
Casualty	16,325,714	1.68	20,232,092	2.00	23.93
Health	70,708,153	7.26	49,617,380	4.91	(29.83)
Land Vehicles	137,304,815	14.09	69,215,017	6.85	(49.59)
Railway Vehicles					
Air Vehicles	692,224	0.07	547,007	0.05	(20.98)
Sea Vehicles	25,882,903	2.66	33,509,000	3.32	29.46
Transport	32,948,542	3.38	41,531,057	4.11	26.05
Fire and Natural Disasters	333,882,824	34.25	390,629,537	38.66	17.00
General Damages	244,702,151	25.11	300,549,820	29.75	22.82
Land Vehicles Liability	76,245,857	7.82	60,708,247	6.01	(20.38)
Air Vehicles Liability					
Sea Vehicles Liability	39,718	0.00	108,210	0.01	172.45
Public Liability	32,587,765	3.34	40,386,247	4.00	23.93
Credit	246,253	0.03	201,612	0.02	(18.13)
Fidelity Guarantees	1,132,124	0.12	1,320,041	0.13	16.60
Financial Losses	1,103,347	0.11	1,582,337	0.16	43.41
Legal Protection	755,797	0.08	155,754	0.02	(79.39)
Total Non-Life	974,558,187	100.00	1,010,293,358	100.00	3.67
Total Non-Life	**974,558,187**	**98.24**	**1,010,293,358**	**98.01**	**3.67**
Life	**17,434,891**	**1.76**	**20,487,622**	**1.99**	**17.51**
General Total	**991,993,078**	**100.00**	**1,030,780,980**	**100.00**	**3.91**

Milli Re Technical Results in 2012

Gross Premium Income (TL)

Branches	2008	2009	2010	2011	2012
Casualty	13,109,950	11,985,669	13,648,776	16,325,714	20,232,092
Health	94,274,277	83,743,457	104,084,845	70,708,153	49,617,380
Land Vehicles	170,746,032	139,977,605	140,302,173	137,304,815	69,215,017
Railway Vehicles					
Air Vehicles	193,802	394,792	1,146,179	692,224	547,007
Sea Vehicles	20,901,154	26,913,477	27,156,879	25,882,903	33,509,000
Transport	34,503,468	27,822,112	27,925,466	32,948,542	41,531,057
Fire and Natural Disasters	260,053,206	289,326,046	269,727,011	333,882,824	390,629,537
General Damages	130,493,216	131,490,270	158,393,566	244,702,151	300,549,820
Land Vehicles Liability	92,684,253	82,782,059	63,676,611	76,245,857	60,708,247
Air Vehicles Liability	10,301	16,290	2,432		
Sea Vehicles Liability		545	51,404	39,718	108,210
Public Liability	13,144,808	14,240,747	29,126,129	32,587,765	40,386,247
Credit	174,769	485,776	251,901	246,253	201,612
Fidelity Guarantees		40,835	649,775	1,132,124	1,320,041
Financial Losses	2,959,282	1,456,291	801,899	1,103,347	1,582,337
Legal Protection	297,057	732,177	549,685	755,797	155,754
Total Non-Life	**833,545,575**	**811,408,148**	**837,494,731**	**974,558,187**	**1,010,293,358**
Life	**15,516,687**	**12,214,317**	**17,808,180**	**17,434,891**	**20,487,622**
General Total	**849,062,262**	**823,622,465**	**855,302,911**	**991,993,078**	**1,030,780,980**

Milli Re Technical Results in 2012

Technical Profitability (TL)

Branches	2008	2009	2010	2011	2012
Casualty	4,268,487	436,633	7,466,168	(4,254,284)	(968,668)
Health	(1,471,318)	(30,121,133)	(19,592,434)	(29,326,697)	6,424,875
Land Vehicles	9,468,787	(21,959,547)	(3,624,645)	(11,446,956)	(3,176,588)
Railway Vehicles					
Air Vehicles	(318,237)	(514,452)	1,125,881	(882,321)	1,290,563
Sea Vehicles	(2,125,522)	(3,227,693)	(4,799,521)	(1,102,633)	6,221,438
Transport	(2,289,009)	7,315,775	20,089,184	6,447,198	14,011,402
Fire and Natural Disasters	43,830,079	57,305,254	20,137,996	(48,749,986)	32,994,001
General Damages	8,203,124	(2,466,224)	(13,846,404)	(28,734,583)	27,479,708
Land Vehicles Liability	(21,362,742)	(788,893)	995,074	(82,507,452)	10,660,977
Air Vehicles Liability	7,841	18,167	9,861	227	
Sea Vehicles Liability		25	(149,635)	143,824	(101,791)
Public Liability	(1,464,999)	5,067,369	11,053,886	1,271,840	3,345,969
Credit	66,786	359,660	254,483	2,794	(126,106)
Fidelity Guarantees		628	3,967	(529,943)	687,052
Financial Losses	1,790,019	687,629	1,459,981	401,592	(225,347)
Legal Protection	247,914	439,982	584,076	581,197	(184,522)
Total Non-Life	**38,851,210**	**12,553,180**	**21,167,918**	**(198,686,183)**	**98,332,963**
Life	**1,062,013**	**2,145,045**	**456,342**	**2,564,291**	**6,769,639**
General Total	**39,913,223**	**14,698,225**	**21,624,260**	**(196,121,892)**	**105,102,602**

Technical Profitability Ratios (%)

Branches	2008	2009	2010	2011	2012
Loss Ratio (Gross)	80	85	74	96	70
Expense Ratio (Gross)	14	26	25	24	26
Combined Ratio (Gross)	94	111	99	120	96
Loss Ratio (Net)	84	81	79	103	76
Expense Ratio (Net)	15	28	27	26	28
Combined Ratio (Net)	99	109	106	129	104

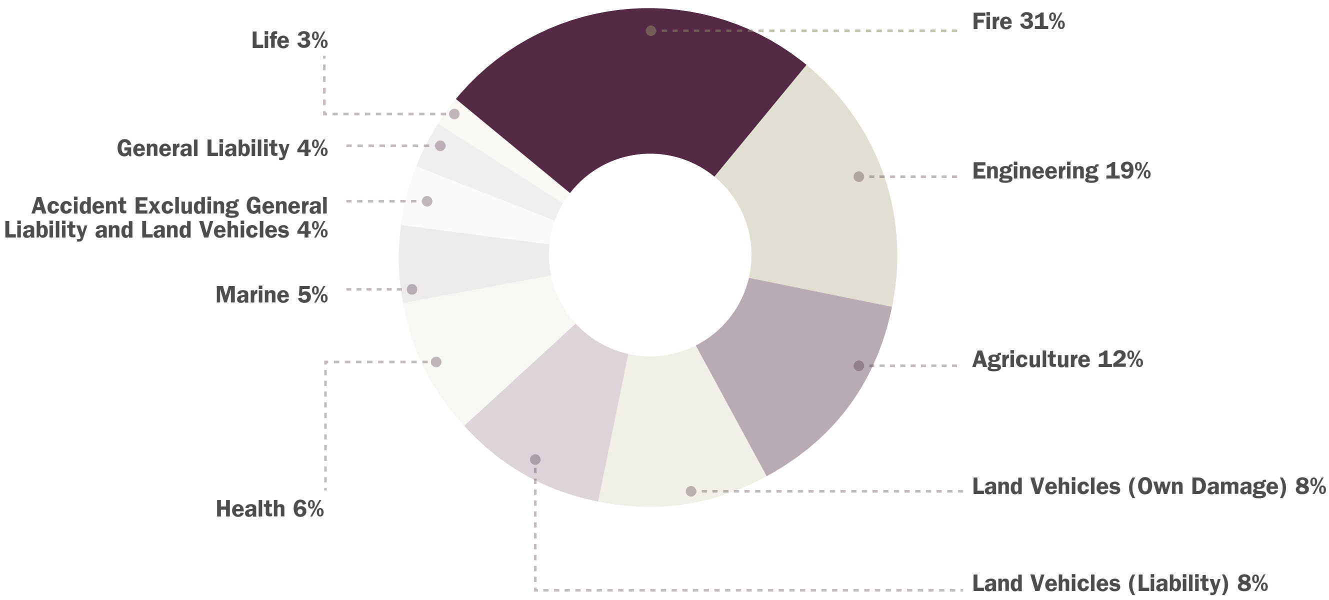
Milli Re's local premiums take 76% share in total premium production.

The Turkish insurance industry increased premium production approximately by 16% in 2012. Although the industry attained real growth in premiums, lack of a parallel increase in Milli Re's local premiums was driven mainly by the Company policy which minimized participation in the reinsurance treaties for Land Vehicles, Land Vehicles Liability and Health branches which make up 63% of the industry's non-life premiums and which constantly post negative results. Along this line, lack of increase in the Company's local premiums results from a deliberate preference aimed at preventing unfavorable results.

The real growth the Company registered in premium production in key branches such as Fire, Engineering and Marine, and the technical profit posted, attest to the accuracy and appropriateness of the strategy pursued.

The distribution of premiums the Company generated on local business by line of business did not show any significant change other than the reduced share of Land Vehicles, Land Vehicles Liability and Health branches in premiums. However, the share of local premium production slimmed down from 78% to 76% year-on-year. This is a result of the 16% rise in international business, as well as the substantial withdrawal from loss-producing branches in the local market.

Breakdown of Local Premium by Branches



Local Acceptances	2008	2009	2010	2011	2012
Premium (TL)	741,479,994	659,431,076	683,741,546	776,680,082	782,190,454
Share in Total Premium (%)	87.3	80.1	79.9	78.3	75.9

Fire

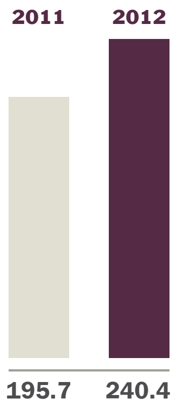
Fire premium production on local business was up 22.8% year-on due to the significantly increased risk cessions to proportional reinsurance treaties in which the company participated. The share of Fire premium in local premiums went up from 25% in 2011 to 31% in 2012, with the effect of the Company's policy to minimize its involvement in Land Vehicles Own Damage, Land Vehicles Liability and Health reinsurance agreements.

Reasons that reduced the technical profit of this branch from TL 27 million in 2011 down to TL 8.1 million in 2012 included the retrocession costs that increased considerably on an annual basis, as well as the increase in paid claims and outstanding claims.

The share of local business in the Company's premium production in Fire branch went up from 58% in 2011 to 61.3% in 2012.

Profitability Ratios in Fire (%)	2011	2012
Gross		
Loss Ratio	48	68
Expense Ratio	24	22
Combined Ratio	72	90
Net		
Loss Ratio	56	81
Expense Ratio	29	27
Combined Ratio	85	108
Technical Profit/Loss (TL mn)	**27.0**	**8.1**

Premium Income (TL mn)



Marine

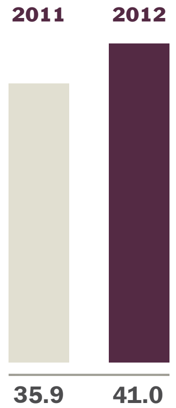
Local Marine premiums consist of the sum of premiums generated on Cargo and Hull insurance. Up by 14.2% year-on, the share of this branch in the Company's total local premium production remained unchanged from last year's 5%.

The declined paid claims and the technical reserves carried forward played an important role in driving the technical profitability in this branch from TL 2.8 million to TL 11.3 million.

The share of local premiums to the Company's overall premium production in Marine branch was down from 61% last year to 54.5% in 2012. This was a result of the 49% growth in Marine premiums written from international business.

Profitability Ratios in Marine (%)	2011	2012
Gross		
Loss Ratio	57	52
Expense Ratio	29	29
Combined Ratio	86	81
Net		
Loss Ratio	71	53
Expense Ratio	34	31
Combined Ratio	105	84
Technical Profit/Loss (TL mn)	**2.8**	**11.3**

Premium Income (TL mn)



Engineering

The rise in premiums generated in this branch, which makes up 19% of local premium production, realized at a high level, namely 35%. The key reason behind this positive development is the increased number of projects launched across the country in areas such as housing, energy, infrastructure and investment.

Reduced Reserves for Unexpired Risks was the main reason that reversed 2011 loss in the amount of TL 31.3 million posted in the Engineering branch to a profit of TL 4.4 million in 2012. Furthermore, high increase in premium production narrowed the loss ratio by 20% year-on. On the other hand, high retrocession costs in this branch, as is the case in Fire branch, lead to a significant difference in gross and net loss ratios.

The share of local acceptances in the Company's total Engineering premium changed from last year's 88% to 91% in 2012, which is a reflection of increased domestic investments.

Profitability Ratios in Engineering (%)	2011	2012
Gross		
Loss Ratio	79	63
Expense Ratio	25	25
Combined Ratio	104	88
Net		
Loss Ratio	104	82
Expense Ratio	31	32
Combined Ratio	135	114
Technical Profit/Loss (TL mn)	**(31.3)**	**4.4**

Premium Income (TL mn)

Land Vehicles (Own Damage)

Under the Company's strategy to minimize its involvement in the treaties of loss-producing branches, which has been implemented for some time due to high loss ratios, the share of this branch in the local portfolio went down from last year's 17% to 8% in 2012.

Because of the strategy in place, paid claims, outstanding claims and premiums received show some reduction; however, net loss ratio, which was 90% in 2011, was 88% this year, as the decline in premiums written was higher than paid and outstanding claims. On the other hand, expense ratio in this year's account is significantly pushed up by deferred commissions in relation with Unearned Premiums Reserves, which was entered as an expense item into this year's accounts although it was recognized as an income item in 2011 accounts; hence, expense ratio that was 17% last year went up to 27% in 2012 and negatively affected the technical results.

In 2013 reinsurance renewals, our participation in Land Vehicles Own Damage and Liability branches was reduced to correspond to a minimum premium of TL 50 million, and the share of this branch in total local premium is expected to come down to 2%-3% in the years ahead. The Company generated 95% of its premiums in this branch from local business.

Profitability Ratios in Land Vehicles (Own Damage) (%)	2011	2012
Gross		
Loss Ratio	91	87
Expense Ratio	17	27
Combined Ratio	108	114
Net		
Loss Ratio	90	88
Expense Ratio	17	27
Combined Ratio	107	115
Technical Profit/Loss (TL mn)	**(6.3)**	**(6.1)**

Premium Income (TL mn)

Land Vehicles Liability

Technical reserves set aside make this branch a problematic one for insurers, as is the Land Vehicles Own Damage insurance, because of the high loss ratio and the long tail of claim payments. Since they make up approximately 23% of the non-life premium production of the overall industry, issues in this branch adversely impact the financial statements of companies.

The Company persists with its strategy of minimizing its participation in the treaties for this branch, as it does in Land Vehicles Own Damage insurance. Last year's loss amounted to TL 82.2 million as a result of technical reserves set aside, whereas this year, a technical profit of TL 10 million was booked with the positive effect of the decline in Reserves for Unexpired Risks, as well as of technical reserves that pushed the loss ratio down owing to minimization of participation in the treaties.

This branch premium income also declined, since Land Vehicles Own Damage and Land Vehicles Liability branches are covered under same treaties, and its share in total local premium was down from last year's 10% to 8% in 2012. All of the Company's premium production in this branch was originated from local business.

Profitability Ratios in Land Vehicles Liability (%)	**2011**	**2012**
Gross		
Loss Ratio	164	104
Expense Ratio	20	22
Combined Ratio	184	126
Net		
Loss Ratio	164	105
Expense Ratio	20	22
Combined Ratio	184	127
Technical Profit/Loss (TL mn)	**(82.2)**	**10.0**

Premium Income (TL mn)

General Liability

All Liability branches apart from Personal Accident and Land Vehicles Liability insurances are handled under this main branch, which corresponds to 4% of the local premium.

Although the premium growth in this branch stood at 12%, respective hikes of 62% and 55% in paid and outstanding claims caused a sharp increase in the loss ratio by 43%, and resulted in a technical loss of TL 0.3 million in 2012 as opposed to the technical profit of TL 0.2 million in 2011.

The share of premium generated from local business in this branch declined from 93% last year to 84% this year, as a result of circa 189% surge in premiums derived from the international book.

Profitability Ratios in General Liability (%)	**2011**	**2012**
Gross		
Loss Ratio	72	103
Expense Ratio	32	30
Combined Ratio	104	133
Net		
Loss Ratio	73	103
Expense Ratio	32	30
Combined Ratio	105	133
Technical Profit/Loss (TL mn)	**0.2**	**(0.3)**

Premium Income (TL mn)

Accident Excluding General Liability and Land Vehicles

A substantial portion of premium production in this branch is derived from Personal Accident and Compulsory Personal Accident insurances for Buses. Premium production in this branch showed 26% increase, whereas its share in total local premiums went up to 4% in 2012 from 3% in the year before.

Last year's technical loss that resulted from the negative effect of technical reserves was reversed to a technical profit in the amount of TL 11.8 million with the positive contribution of technical reserves carried forward.

In this branch, the share of premiums the Company derives from local business stands at 63%, which is a relatively low ratio as compared with other branches, as a result of the high amount of premiums originated from the international portfolio

Profitability Ratios in Accident Excluding General Liability and Land Vehicles (%)	2011	2012
Gross		
Loss Ratio	85	42
Expense Ratio	37	27
Combined Ratio	122	69
Net		
Loss Ratio	86	42
Expense Ratio	37	27
Combined Ratio	123	69
Technical Profit/Loss (TL mn)	**(2.8)**	**11.8**

Premium Income (TL mn)

Agriculture

Local premium production in this branch originates largely from the Agricultural Insurance Pool (TARSİM). The key reason behind the year-on rise by 4% in premium is the fact that four quarters were covered in this year's accounts, while last year's accounts covered five quarters as a result of the shift in fiscal periods.

Taking approximately 12% share of the total local premium portfolio, the branch attained significant growth in profit on an annual basis, owing mainly to the positive difference between the investment income and investment expenses transferred from non-technical accounts.

Local business constitutes 82% of the premium production the Company registered in Agriculture branch.

Profitability Ratios in Agriculture (%)	2011	2012
Gross		
Loss Ratio	68	68
Expense Ratio	31	34
Combined Ratio	99	102
Net		
Loss Ratio	70	67
Expense Ratio	31	34
Combined Ratio	101	101
Technical Profit/Loss (TL mn)	**5.0**	**11.6**

Premium Income (TL mn)

Health

The Company pursued the strategy of minimizing its participation in the treaties of this branch, as it did for the Land Vehicles Own Damage and Land Vehicles Liability insurances due to high loss ratios in the market and the ongoing technical losses in connection therewith. Along this line, premium production shrank by 27% year-on, and its share in local premium portfolio come down from 9% to 6%. On the other hand, net loss ratio decreased from last year's 134% to 87% this year, as a result of high reduction in paid and outstanding claims, on the back of which the branch posted a technical profit of TL 8.5 million.

98% of the Company's premium production in this branch is generated from local business.

Profitability Ratios in Health (%)	2011	2012
Gross		
Loss Ratio	134	87
Expense Ratio	4	3
Combined Ratio	138	90
Net		
Loss Ratio	134	87
Expense Ratio	4	3
Combined Ratio	138	90
Technical Profit/Loss (TL mn)	**(27.6)**	**8.5**

Premium Income (TL mn)

Life

Given that the treaties the Company participates in this branch include policies covering risk elements only, the share of this branch in the local premium portfolio is 3%.

The decline in the net loss ratio that resulted from the paid and outstanding claims that remained almost unchanged from last year's levels despite the 17.5% growth in premium production reflected positively on the technical results of this branch, which booked TL 6.8 million in profit in 2012, remarkably higher than the TL 2.6 million figure of 2011.

The Company's premium production in this branch is generated from the local market in its entirety.

Profitability Ratios in Life (%)	2011	2012
Gross		
Loss Ratio	40	33
Expense Ratio	46	40
Combined Ratio	86	73
Net		
Loss Ratio	41	32
Expense Ratio	48	41
Combined Ratio	89	73
Technical Profit/Loss (TL mn)	**2.6**	**6.8**

Premium Income (TL mn)

Foreign Acceptances

Milli Re started playing an even more active role in the international reinsurance markets, particularly since 2006.

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

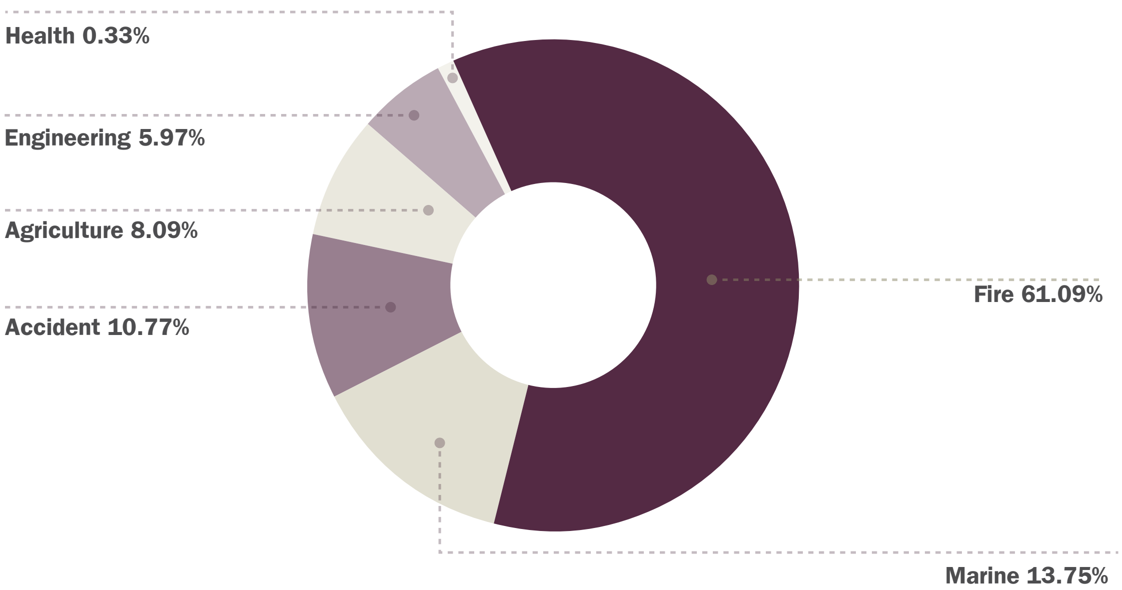
A significant portion of the developing international portfolio is made up of acceptances from African and Asian countries, which fall under the scope of the FAIR Reinsurance Pool that has been managed by Milli Re since its establishment in 1974.

In addition to this, Milli Re has further enhanced the diversification of the international portfolio by providing conventional reinsurance capacity as well as capital contribution to select Continental European and Lloyd's market players, which already participate in the retrocession programs of the company. Similarly, Milli Re Singapore Branch, which started writing business in 2008, continues to work efficiently in the Far East, 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

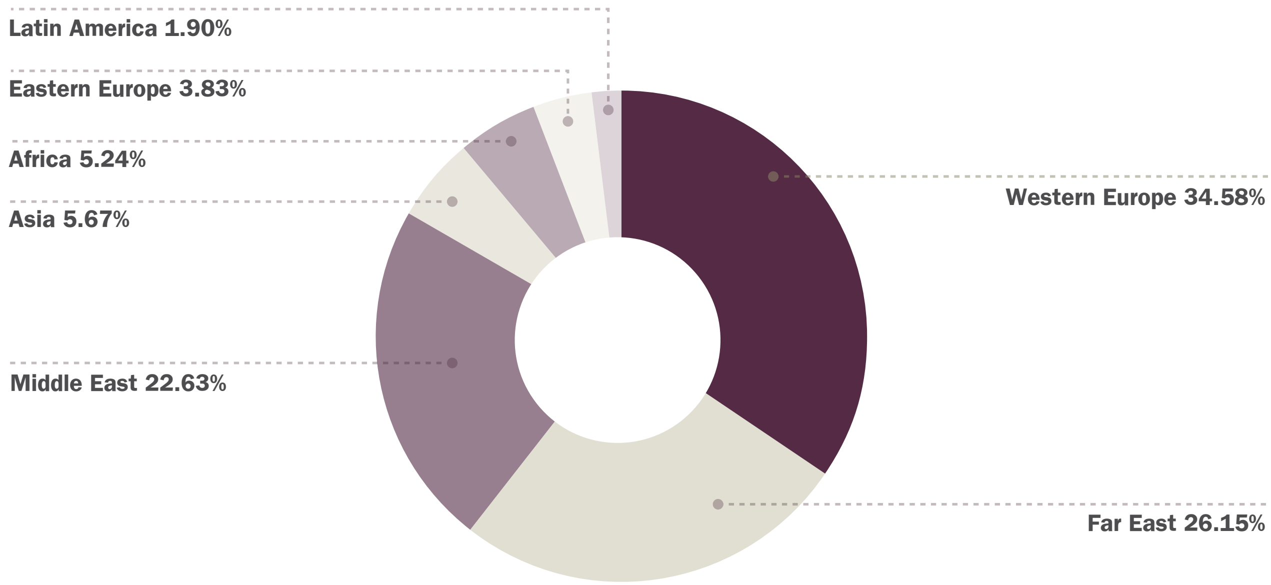
Breakdown of Premiums of Foreign Acceptances by Branches



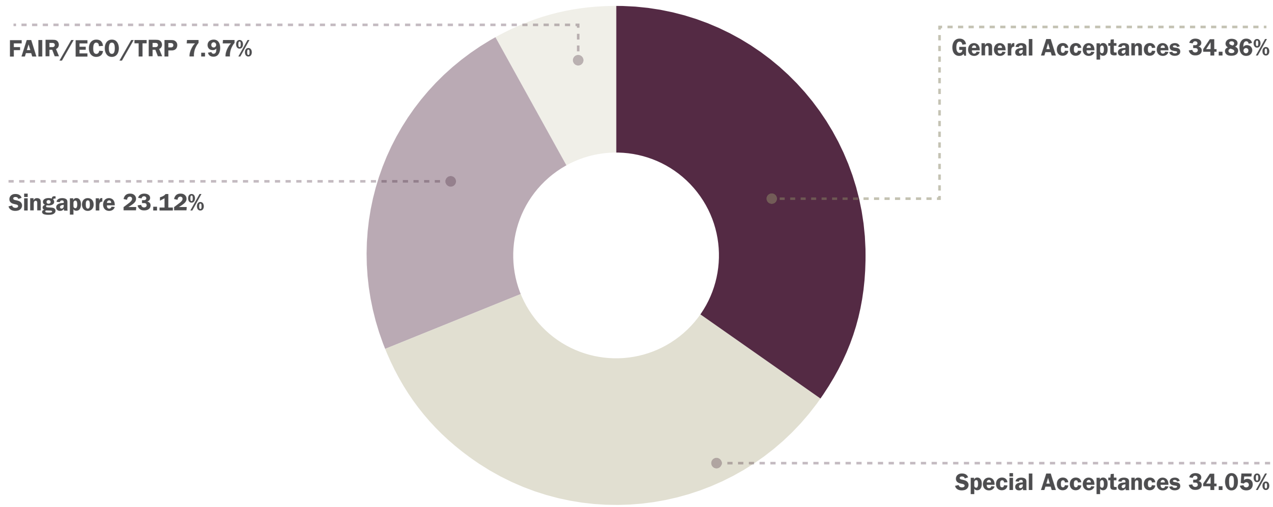
Foreign Acceptances	2008	2009	2010	2011	2012
Premium (TL)	107,582,268	164,191,389	171,561,365	215,312,996	248,590,527
Share in Total Premium (%)	12.7	19.9	20.1	21.7	24.1

Foreign Acceptances

Geographic Breakdown of Foreign Acceptances by Locations of Ceding Companies



Split of International Premium by Source of Production



The declined rate of increase in non-life premium in the Middle East is compensated by the premiums generated on Health insurance that has become a compulsory insurance branch in major countries, and the gradually growing Life insurance premiums.

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 of non-life insurances 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, and the constant growth in reinsurance capacity.

Some characteristics and developments concerning various emerging markets in 2012 are presented below:

Middle East: The repercussions of the unrest that was created by the wave of uprisings referred to as the Arab Spring, and of the stagnated global economy continued to be felt in the region in 2012. The high rates of premium increase of previous years attained in Fire and Engineering branches in particular were absent in 2012. The growth in the insurance market came particularly in compulsory insurances, which were introduced at a constantly increasing number of countries. The declined rate of increase in non-life premium in the Middle East is compensated by the premiums generated on Health branch that has become a compulsory insurance branch in major countries, and the gradually growing Life insurance premiums.

Despite the continued negative impact of technically low rates due to competition on the companies' premium productions and profitabilities, the increased number of catastrophe events in the recent years, and the reduced capacity allocated by European reinsurers to the region, there was no reduction in the reinsurance capacity in the region. The primary reason for this predicament is the increased capacity received from Asia as well as in the capacity provided regionally.

While no severe catastrophe losses took place in 2012, the region was inflicted by major fire risk losses. On the part of the proportional treaties that resulted negatively, noted developments were reductions in commission rates and restrictions imposed on facultative reinsurance acceptances and coinsurance.

Indian Peninsula: 2012 saw the introduction of the minimum premium practice for the natural disaster and the Strike Lockout Civil Commotion coverage contained in policies issued in India. Furthermore, the Insurance Regulatory and Development Authority (IRDA), the local insurance authority, required the reinsurance companies, which do not have an office in India, to file an application with the authority and get a Reference Number in order to be able to accept business in the Indian market. In addition, the Indian market enforced an event limit in the proportional Fire and Engineering treaties of all companies starting from the April 2012 renewal period. Restrictions have been brought in relation to reinsurance agreements for business interruption and interests abroad particularly in the aftermath of the Thailand flood loss.

Encompassing many emerging economies, the Asian continent is one of the several drivers of global economic growth today.

North Africa: The uprising events of early 2011 have been influential on the insurance and reinsurance markets in the region, and terms of treaties were improved on the part of reinsurers. Although the countries that were the scene to these uprisings embarked upon a more stable process politically and economically in the period that followed, it has been observed that Strike Lockout Civil Commotion Clause continued to exist in treaty wordings, or was incorporated in treaties that previously did not include that clause.

Other than those, there were no changes in the terms of profitable agreements. In relation to treaties that resulted negatively, it was observed that restrictions were introduced on facultative reinsurance acceptances and coinsurance, and commission rates were reduced.

Restricted cover for interests abroad, which is becoming a general trend in all markets, is noted also in this region.

Eastern Europe/Russia: Largely controlled by big insurance groups based in Western Europe, the Eastern European markets did not experience any significant losses in 2012. Therefore, there were 5% to 10% decreases in catastrophe rates and about 5% in risk rates. In addition, there was not any change in general in relation to proportional treaties, and conditions were revised depending on the results of individual agreements.

The Russian market was exposed to increased frequency of medium-scale fire losses in 2012, which resulted in 10% to 15% increases in the prices of treaties that suffered losses. In parallel with competitive pricing, which characterizes the Russian reinsurance market, rates were still below the technical level, despite the increased frequency of losses.

Far East: 2012 has been a calm year as compared to 2011, which had been an intensive year in terms of catastrophic events. Yet, typhoon and flood incidents took place that resulted in severe loss of lives and property, although the insured loss amount involved in these events was low.

In July 2012, Beijing suffered from the “heaviest rain in six decades” that left 37 people dead, inundated 700 houses, and forced the evacuation of 57,000 people. The downpour also destroyed roads, bridges, and 12,540 hectares of crops. While the magnitude of economic loss is estimated to arrive at USD 8 billion, the insured loss amount is expected to remain below USD 200 million.

The Typhoon Bopha, a category-5 super typhoon that hit the Philippines in December 2012, left 1,400 people dead or missing, and compelled the evacuation of thousands of people. However, it is estimated that the economic loss will not exceed USD 1 billion, with insured loss remaining significantly low versus the economic loss.

While these incidents keep indicating the low insurance penetration in the region and the growth potential, they also serve as the reminders of the fact that natural disasters are a reality in this region, whether they cause insured losses or not.

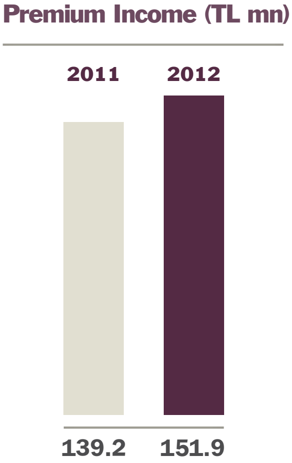
Encompassing many emerging economies, the Asian continent is one of the several drivers of global economic growth today. While this attracts a large number of new insurance market players to the region of which the insurance market is yet to develop and stabilize, and exposures resulting from the region’s geographical location increases rapidly. The disasters that various economies in the region are exposed to because of their geographical location keep underlining the significance of catastrophe modeling, and more importantly, the vitality of currently unmodeled risks.

Fire

Fire premium from the international portfolio went up by 9.1% year-on to TL 151.9 million in 2012, and made up a significant amount, corresponding to 61.1% in total international premium production.

Having posted loss in the costly year of 2011 which was heavily impacted by catastrophe losses, a technical profit of TL 24.7 million was booked in 2012, as a result of portfolio improvement initiatives which included withdrawal from retrocession business, cancellation of treaties with poor results, and reduction of exposure from peak catastrophe perils, combined with rate strengthening following the losses of 2011 benign nat cat activity during 2012. The Company derived 38.7% of its total Fire premium from the international portfolio.

Profitability Ratios in Fire (%)	2011	2012
Gross		
Loss Ratio	189	61
Expense Ratio	22	28
Combined Ratio	211	89
Net		
Loss Ratio	196	64
Expense Ratio	25	31
Combined Ratio	221	95
Technical Profit/Loss (TL mn)	**(75.3)**	**24.7**

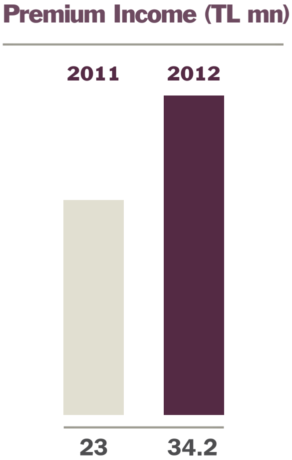


Marine

Premium production in the Marine branch of the international portfolio was up by 48.7% year-on and reached TL 34.2 million.

As a result of the positive reflection of the boost in premium production that was generated from new business and the shift of fiscal periods, technical profit in Marine branch showed a remarkable increase year-on and went up to TL 8.8 million. 45.5% of the Company's total Marine premium production was generated from international business.

Profitability Ratios in Marine (%)	2011	2012
Gross		
Loss Ratio	73	52
Expense Ratio	29	27
Combined Ratio	102	79
Net		
Loss Ratio	74	53
Expense Ratio	30	28
Combined Ratio	104	81
Technical Profit/Loss (TL mn)	**2.7**	**8.8**



Engineering

There was not a significant change in the premium production of the engineering branch of the international book. Premium production in this branch reached TL 14.9 million as at year-end 2012.

Driven by the positive trend in terms of losses in 2012, technical profit rose significantly year-on and realized as TL 6.7 million.

International business accounts for 9% of the Company's total premium production in Engineering branch.

Profitability Ratios in Engineering (%)	2011	2012
Gross		
Loss Ratio	84	27
Expense Ratio	31	41
Combined Ratio	115	68
Net		
Loss Ratio	84	27
Expense Ratio	31	41
Combined Ratio	115	68
Technical Profit/Loss (TL mn)	**0.3**	**6.7**

Premium Income (TL mn)

Land Vehicles (Own Damage)

As a result of share cancellations in proportional treaties in keeping with the profitability improvement efforts Land Vehicles Own Damage premium declined year-on-year and premiums amounted to TL 3.1 million as at year-end 2012.

On the back of the steps taken to improve the portfolio results as mentioned above, this branch posted TL 2.9 million technical profit in 2012, reversing the prior year's loss.

International business had about 5% share of the Company's total premium production for this branch.

Profitability Ratios in Land Vehicles (Own Damage) (%)	2011	2012
Gross		
Loss Ratio	119	2
Expense Ratio	76	38
Combined Ratio	195	40
Net		
Loss Ratio	119	2
Expense Ratio	76	38
Combined Ratio	195	40
Technical Profit/Loss (TL mn)	**(5.1)**	**2.9**

Premium Income (TL mn)

General Liability

International premium production in General Liability branch climbed to TL 6.5 million as a result of 189% surge that was generated equally from new and renewal business.

Despite the huge growth in premium, limited rise in the net combined ratio is noted and accordingly technical profit showed increase on an annual basis and stood at TL 3.7 million.

The Company generated 16% of its total premium production in General Liability branch from the international portfolio.

Profitability Ratios in General Liability (%)	**2011**	**2012**
Gross		
Loss Ratio	35	27
Expense Ratio	11	11
Combined Ratio	46	38
Net		
Loss Ratio	23	28
Expense Ratio	11	13
Combined Ratio	34	41
Technical Profit/Loss (TL mn)	**1.0**	**3.7**

Premium Income (TL mn)

Accident Excluding General Liability and Land Vehicles Own Damage

Loss of premium that resulted from share cuts in existing treaties in line with the portfolio pruning measures was offset to a large extent with new business and the premium production in 2012 registered a limited decline in comparison with 2011.

With the effect of reduced net loss ratio secured on the back of these developments, last year's TL 3.2 million loss was changed to a technical profit of TL 0.2 million in 2012.

37% of the Company's total premium in this branch originated from international business.

Profitability Ratios in Accident Excluding General Liability and Land Vehicles Own Damage (%)	**2011**	**2012**
Gross		
Loss Ratio	96	72
Expense Ratio	25	29
Combined Ratio	121	101
Net		
Loss Ratio	98	74
Expense Ratio	28	30
Combined Ratio	126	104
Technical Profit/Loss (TL mn)	**(3.2)**	**0.2**

Premium Income (TL mn)

Agriculture

Due to the organic growth in existing business, combined with the shift of fiscal periods, international premium production in Agriculture branch increased by 118.9%, and premiums generated amounted to TL 20.1 million at the end of 2012.

The branch booked a technical loss of TL 6.5 million in 2012 as a result of the increase in paid and outstanding claims as well as UPR, due to the surge in premiums despite the reduced loss ratio.

The Company derived 18% of its total Agriculture premium production from the international portfolio.

Profitability Ratios in Agriculture (%)	2011	2012
Gross		
Loss Ratio	112	104
Expense Ratio	27	28
Combined Ratio	139	132
Net		
Loss Ratio	113	101
Expense Ratio	28	28
Combined Ratio	141	129
Technical Profit/Loss (TL mn)	**0.3**	**(6.5)**

Premium Income (TL mn)

Health

Portfolio improvement efforts in Health branch, which does not represent a significant share in the international portfolio, led to a 76.4% decline year-on and caused the premium to be realized as TL 0.8 million in 2012.

On the other hand, as a result of the losses that prevailed in relation to cancelled business despite the reduced premium production due to the measures mentioned above, the branch posted a technical loss of TL 2.1 million in 2012. 2% of the Company's total premium production in this branch was generated from the international book.

Profitability Ratios in Health (%)	2011	2012
Gross		
Loss Ratio	113	235
Expense Ratio	38	39
Combined Ratio	151	274
Net		
Loss Ratio	113	235
Expense Ratio	38	39
Combined Ratio	151	274
Technical Profit/Loss (TL mn)	**(1.8)**	**(2.1)**

Premium Income (TL mn)

Milli Re Internal Audit Department actively works in line with its target of improving the Company's operations and adding value to them.

Internal audit is an independent and objective assurance and advisory activity, which seeks to improve an organization's activities and to add value to them. Internal audit helps an organization to achieve its goals by introducing a systematized and disciplined approach directed towards the objective of assessing and improving the organization's risk management, control and governance processes.

In this context, 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 related regulations, 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 2012, the Internal Audit Department has completed on-site inspection of all units 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 actively works with the support of the management and in cooperation with the Company employees in line with its target of improving the Company's operations and adding value to them.

Internal Control activities cover the Company's actions in relation to its operational activities, its communication channels, information systems, financial reporting system and compliance controls.

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 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 mandatory 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, 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 units 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 units 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.

Affiliates

Anadolu Anonim Türk Sigorta Şirketi

Anadolu Anonim Türk Sigorta Şirketi (Anadolu Sigorta) is Turkey's first national insurance company, which was established on 01 April 1925. The sector's leader in premium production, the company succeeded in being the first Turkish insurance company to surpass the USD 1 billion mark in total premium production in 2007. Anadolu Sigorta holds ISO 9001:2000 Quality Management System certification, which endorses the world-class implementation of the quality management system it has adopted. Anadolu Sigorta is active in all non-life insurance branches.

Our Company became the principal shareholder in Anadolu Sigorta with a shareholding of 57.3% in total, upon purchase of an additional 35.53% share in Anadolu Sigorta on 30 September 2010. The remaining 42.7% of the company's shares are publicly-held.

Pursuant to the Communiqué on the Preparation of Consolidated Financial Statements of Insurance, Reinsurance and Pension Companies published in the Official Gazette issue 27097 dated 31 December 2008 and to the Turkish Accounting Standards 27, our Company consolidates the financial results of Anadolu Sigorta on a line-by-line basis since 30 September 2010.

www.anadolusigorta.com.tr

Miltaş Turizm İnşaat Ticaret A.Ş.

Miltaş Sports Complex has been serving the insurance sector since 1986 with its facilities in various sports, particularly tennis and basketball. The Complex has been hosting the International Insurance Tennis Tournament every June since 1986, providing a unique environment that brings together international reinsurers and brokers engaged in the Turkish insurance market with the insurers. In addition to tennis and basketball courses organized every year for various age groups, private tennis lessons are available for adults in the Complex.

Our Company owns 77% share in Miltaş Turizm İnşaat Ticaret A.Ş. Within the frame of the exception stipulated in the Communiqué on the Preparation of Consolidated Financial Statements of Insurance, Reinsurance and Pension Companies published in the Official Gazette issue 27097 dated 31 December 2008, Miltaş Turizm İnşaat Ticaret A.Ş., which is a subsidiary of the Company, is excluded from the scope of consolidation, due to the fact that the said subsidiary's total assets correspond to less than 1% of the Company's total assets.

Issues Related to the General Assembly

During 2012, all of the resolutions adopted by the General Assembly of Shareholders have been fulfilled, and the targets set in the prior period have been achieved.

Annual General Meeting Agenda

1. Opening and forming the Presiding Board,

2. Reading and deliberation of the 2012 Activity Report drawn up by the Board of Directors,

3. Reading the Statutory Auditors' reports,

4. Deliberation and approval of the Company's Financial Statements for 2012,

5. Individual acquittal of the members of the Board of Directors and Statutory Auditors of their fiduciary responsibilities,

6. Determination of the manner and date of distribution of profit,

7. Approving the election made for the seats on the Board of Directors vacated during the reporting period, pursuant to Article 363 of the Turkish Commercial Code (TCC) and Article 12 of the Company's Articles of Association,

8. Approving the election made for the General Assembly Auditor position vacated during the reporting period,

9. Laying down the amendments to the Articles of Association for approval,

10. Election to the seats on the Board of Directors,

11. Election of Statutory Auditor,

12. Determination of the remuneration to be paid to the members of the Board of Directors,

13. Approving the Internal Guidelines on the Operating Principles and Procedures of Milli Re General Assembly of Shareholders,

14. Authorizing the Board Directors to perform the transactions set out in Articles 395 and 396 of the TCC,

15. Wishes.

Our Company's total premium production amounted to TL 1,031 million as at year-end 2012, up nearly 4% year-on.

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 2012 marking the Company's 84th year of operation, which are tabulated in line with the provisions of applicable legislation and the principles and guidelines set by the T.R. Prime Ministry Undersecretariat of Treasury.

It can be suggested that the negative effects of the global financial crisis that broke out by the end of 2008 lived on, although at a lesser extent. Yet, while certain concrete measures adopted for the resolution of the issues particularly in the Euro Zone by late 2012 and some positive signs concerning the US and Chinese economies can be considered as signs of improvement, the vulnerabilities continue particularly in the Euro Zone, and growth in developed countries maintain a weak outlook.

Positive developments that began in 2010 in Turkey's economic and financial indicators were sustained in 2012, and a steady decline was achieved in inflation. However, it is also observed that the Turkish economy, which had grown at a very rapid pace for a while, began slowing down, and the rate of growth is coming down from 9% to 3%.

The Turkish insurance industry, on the other hand, attained 16% expansion in total premium production in 2012. The said growth that was highly above the inflation rate resulted in a total premium production that amounted to TL 20 billion. In the same period, the non-life insurances grew by 18% and the life branch by 1%. The Land Vehicles (Own Damage, Liability) branches preserved their weight in non-life branches, and the amount of loss that resulted despite the significantly expanded premiums particularly in the Land Vehicles Liability branch represents a key concern for our market.

Although not as heavily impacted as 2011 was, 2012 was scene to many natural disasters that caused loss of lives and material damage in various parts of the world. The Superstorm Sandy that resulted in a high death toll and huge losses in the USA and the Caribbean, and the floods that occurred in the UK, Thailand and Australia significantly affected not only the insurance and reinsurance markets, but also many economies. Despite these negative developments, the global reinsurance capacity did not shrink, whereas a significant rise was observed in the reinsurance capital. On the other hand, it can be suggested that 2012 has been a year of positive results for reinsurance companies, a consequence of the more disciplined pricing policy pursued across the globe.

Going beyond being a local reinsurer and playing an active role in international markets especially since 2006, our Company's total premium production reached TL 1,031 million at year-end 2012, up nearly by 4% year-on. Corresponding to 76% of this amount, the portion of TL 782 million was generated on local business, whereas TL 249 million that accounts for 24% of total premium production was derived from international business. As a consequence of the Company's strategy to cut back its share in branches that continually produce negative results in Turkey and to ensure diversification of international business portfolio, there was a limited increase of 1% in local premium, whereas the amount of international premium grew by 16%.

Owing particularly to the positive contribution of our technical results, our profit for 2012 was approximately TL 98 million. The Company's total assets grew by 11% to TL 1,764 million, and shareholders' equity by a remarkable 47% to TL 658 million in the same 12-month period.

We extend our thanks to our esteemed shareholders and our employees who were the greatest contributors in making it possible for our Company to preserve its prestige and reliability acquired in the past 84 years and the greatest supporters in its efforts to be a preferred business partner owing to its robust financial structure.

BOARD OF DIRECTORS

Information on the Company’s Activities

Repurchased own shares by the Company
None.

Disclosures concerning special audit and public audit during the reporting period
Our Company was not subjected to any public audit in 2012.

Lawsuits filed against the Company and the members of the governing body and potential results
There are no lawsuits brought against the Company, which are of a nature that might affect the Company’s financial standing and its activities.

There are no administrative or judicial sanctions imposed against the Company or the members of the governing body on account of any practice violating the provisions of legislation.

Extraordinary General Meetings held during the reporting period
The Company did not hold an extraordinary general meeting during 2012.

Expenses incurred in the reporting period in relation to donations, grants, and social responsibility projects
The Company’s donations under this heading amounted to TL 212,375 in 2012.

Relations with the controlling company or an affiliate thereof
Between our Company and our controlling shareholder İşbank and other Group Companies affiliated to İşbank, there is no:
• Transfer of receivables, payables or assets,
• Legal transaction creating liability such as providing suretyship, guarantee or endorsement,
• Legal transaction that might result in transfer of profit.

All commercial transactions the Company realized with its controlling shareholder and with the Group Companies affiliated thereto during 2012 were carried out on an arm’s length basis, according to the terms and conditions known to us, related counter performances have been carried out, and the Company did not register any loss on account of any such transaction.

Milli Re demonstrates its sense of social responsibility in the most effective manner through taking on duties, conducting concrete projects and undertaking sponsorships in the areas of education, sports, culture and the arts in particular.

Milli Re Art Gallery

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 artistic and cultural activities, and designed a library, an auditorium and a gallery in this section.

In the nineteen years since its debut, Milli Re Art Gallery has organized nearly 160 Exhibitions, all of which were widely acclaimed in art circles and followed with interest. The gallery has published more than one hundred and fifty books with texts by famous Turkish and foreign authors and art critics, most of which are referenced in the art literature.

Some of the exhibitions put on display at the Milli Re Art Gallery is also displayed in other countries, including, among others, 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

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 10 April 1996, the Milli Re Chamber Orchestra has signed its name under numerous successful concerts since its foundation with famous Turkish and foreign conductors and musicians. 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.

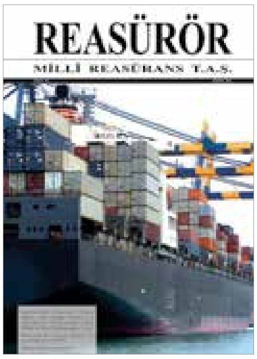
In addition to the regularly performed concerts, the Orchestra takes part in various national and international festivals. The Milli Re Chamber Orchestra also released two CDs, titled "Romantic Era Strings Music" and "Şensoy Plays Tura".

Continuing to extend support to art through sponsorship of the 34th, 36th, 38th and 40th International İstanbul Music Festivals, held in 2006, 2008, 2010 and 2012 respectively, Milli Re will be a sponsor of the 42nd International İstanbul Music Festival that will be held in 2014.

Miltaş Sports Complex

Miltaş Sports Complex has been serving the insurance sector since 1986 with its facilities in various sports, particularly tennis and basketball. The Complex has been hosting the International Insurance Tennis Tournament every year in early summer since 1986, providing a unique environment that brings together foreign reinsurers and brokers engaged in the Turkish insurance market with the insurers. In addition to tennis and basketball courses organized every year for various age groups, private tennis lessons are available for adults in the Complex.

The Turkish Insurance Institute Foundation (TII) was established jointly by Milli Re and the Insurance Association of Turkey on 29 May 1970 with the aim of helping the Turkish insurance industry to be highly positioned in economic and social life and development.



Reasürör Magazine

Quarterly published since 1991, the Reasürör Magazine provides fully academic content including compilations, translations, interviews, and statistical information in a variety of branches. The 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.**

Milli Re Library

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.

The Milli Re Library is market'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.**

Turkish Insurance Institute Foundation (TII)

Turkish Insurance Institute Foundation (TII) was established jointly by Milli Re and the Insurance Association of Turkey in 1970 for the purpose of working 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 offered training service to more than 30% of the Turkish insurance industry employees since its foundation, TII organizes "Advanced Insurance Training Programs" and short-term training programs, courses 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.

On the other hand, the TII offered training to 7,133 people via the "Insurance Agents Technical Personnel Training" co-organized with the Insurance Training Center (SEGEM) and to 895 people within the frame of the "Insurance and Reinsurance Brokers Technical Personnel Training" during 2012.

Financial Status

Statutory Auditors' Report

To:
Millî Reasürans T.A.Ş.
General Assembly of Shareholders

In the capacity of Auditors of your Esteemed Assembly, we have audited the transactions and accounts of Milli Reasürans Türk Anonim Şirketi for the 2012 fiscal year in accordance with the provisions of the Turkish Commercial Code, the Company's Articles of Association and applicable legislation, as well as generally accepted accounting principles and standards.

In our opinion, the attached balance sheet of the Company drawn up on 31 December 2012, the contents of which we acknowledge, fairly and accurately presents the Company's financial status on the date, and the profit/loss statement for the period 01 January 2012– 31 December 2012 fairly and accurately presents the operating results for the period.

In line with our conclusion, we hereby submit the balance sheet, income statement, statement of changes in equity, cash flow statement and profit distribution chart for your approval, and acquittal of the Board of Directors for your voting.

February 15, 2013

Canan YILMAZ	**Erdal AKGÜL**
Statutory Auditor	**Statutory Auditor**

Milli Reasürans T.A.Ş. Unconsolidated Financial Statements as at and for the Year Ended 31 December 2012

We confirm that the unconsolidated financial statements and related disclosures and footnotes as at 31 December 2012 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.

İstanbul, 15 February 2013

Şule SOYLU
Group Manager

Kemal ÇUHACI
Assistant General Manager

Hasan Hulki YALÇIN
General Manager

Ertan TAN
Actuary

Erdal AKGÜL
Statutory Auditor

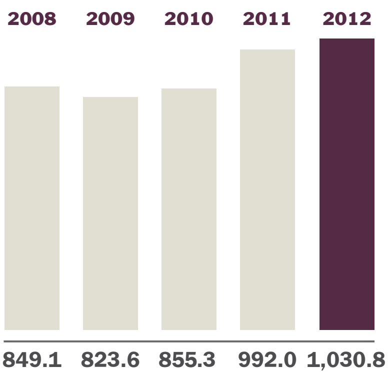
Canan YILMAZ
Statutory Auditor

Key Financial Indicators

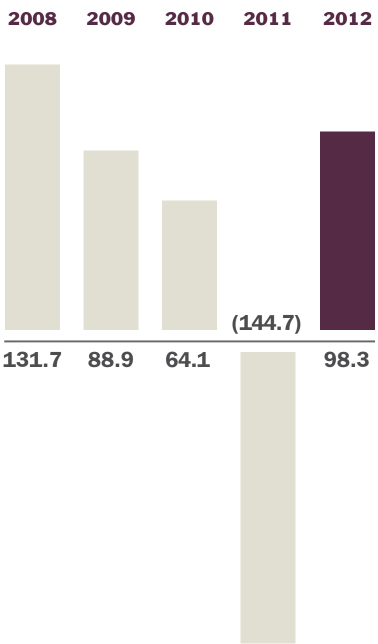
Financial Results (TL mn)	2011	2012	Change (%)
Total Assets	1,594.9	1,763.9	10.6
Shareholders' Equity	447.3	658.4	47.2
Technical Income	1,937.6	2,267.0	17.0
Technical Profit/Loss	(196.1)	105.1	+
Financial Income	86.1	44.3	(48.5)
Financial Profit/Loss	51.4	(6.8)	-
Profit/Loss for the Period	(144.7)	98.3	+

Ratios (%)	2011	2012
Liquid Assets/Total Assets	56	59
Gross Written Premiums/Shareholders' Equity	222	157
Profit Before Tax/Gross Written Premiums	(15)	10
Shareholders' Equity/Total Assets	28	37
Profit Before Tax/Average Shareholders' Equity (Excluding Profit)	(22)	19
Profit Before Tax/Average Total Assets	(9)	6
Loss Ratio (Net)	103	76

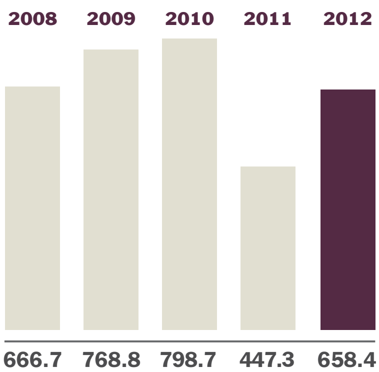
Premium Income (TL mn)



Profit for the Period (TL mn)



Shareholders' Equity (TL mn)



Key Financial Figures

(TL)	2008	2009	2010	2011	2012
Assets					
Cash and Cash Equivalents	489,476,208	583,896,839	382,316,698	582,286,838	677,226,863
Securities	496,207,492	510,592,376	495,359,682	306,538,179	360,820,842
Subsidiaries	87,023,241	124,962,744	0	0	0
Affiliates	0	746,207	387,588,848	227,120,790	330,278,828
Fixed Assets	65,234,219	49,406,849	48,174,048	46,841,614	45,615,896
Doubtful Receivables (Net)	0	0	0	0	0
Total Assets	1,389,269,172	1,562,695,861	1,621,268,850	1,594,891,858	1,763,913,538
Liabilities					
Technical Provisions	658,467,830	698,939,892	756,994,096	1,079,305,637	1,026,897,719
Shareholders' Equity*	666,717,417	768,774,070	798,689,610	447,269,521	658,397,986
Income and Expense Items					
Technical Income	1,458,553,310	1,698,923,036	1,731,029,743	1,937,552,261	2,266,964,100
Technical Expenses	1,418,640,086	1,684,224,810	1,709,405,483	2,133,674,154	2,161,861,498
Technical Profit/Loss	39,913,223	14,698,225	21,624,260	(196,121,892)	105,102,602
Financial Income	164,799,000	131,010,528	84,818,884	86,126,846	44,254,248
Financial Expenses	62,614,799	42,492,296	35,843,117	28,925,708	43,718,498
General Expenses	10,430,641	9,914,068	6,509,257	5,816,234	7,289,532
Financial Profit/Loss	91,753,559	78,604,165	42,466,510	51,384,904	(6,753,784)
Profit/Loss for the Period	131,666,783	93,302,390	64,090,771	(144,736,989)	98,348,818

* Including Profit/Loss for the Period

Milli Re's total assets rose by 10.6% year-on and reached TL 1,763,913,538.

The Company's financial investments are invested in accordance with the Asset Investment Guidelines, which was formulated under the provisions of the "Regulation Amending the Regulation on the Financial Structures of Insurance, Reinsurance and Pension Companies" published in the Official Gazette issue 27877 dated 17 March 2011. We prefer to constitute the investment portfolio with high-yield and highly liquid financial investment instruments that involve minimum risk. Part of our portfolio is managed by İş Portföy Yönetimi A.Ş. (İş Asset Management). The Company's financial results are presented in detail below.

Investment Income

In 2012, the Company derived TL 17,988,874 on the trading of the marketable securities and fixed-income securities contained in our investment portfolio, as a result of the developments in the financial markets. The "Financial Investments Valuation Account" showed an increase as compared with 2011, as a result of the declined interest rates on fixed-income securities and the rise in the ISE index. The Company booked currency translation gains in the amount of TL 8,333,438 due to the fluctuations in exchange rates during the reporting period, and rental income in the amount of TL 9,694,494 on investment properties. At the bottom line, Milli Re's investment income totaled TL 130,965,159.

(TL)	31.12.2011	31.12.2012	Change (%)
Investment Income	138,635,297	130,965,159	(5.53)
Income from Financial Assets	55,425,408	80,361,831	44.99
Income from Disposal of Financial Assets	41,762,980	17,988,874	(56.93)
Valuation of Financial Assets	(22,731,963)	14,245,584	+
Foreign Exchange Gains	26,162,503	8,333,438	(68.15)
Income from Associates	5,407,979	0	(100)
Income from Subsidiaries and Joint Ventures	5,733,312	0	(100)
Income from Property, Plant and Equipment	8,495,691	9,694,494	14.11
Income from Derivative Transactions	18,351,708	333,499	(98.18)
Other Investments	27,679	7,439	(73.12)

Within the frame of the strategy defined and forecasts, Milli Re booked a net profit for the period in the amount of TL 98,348,818 in 2012.

Investment Expenses

In 2012, the Company's investment expenses remained flat in comparison to 2011 figures. Pursuant to the provisions of the Communiqué published by the T.R. Prime Ministry Undersecretariat of Treasury, a portion of the financial income and expense items was transferred to the technical income and expense accounts for the related branches. Detailed information on this implementation is presented in the section entitled "Notes to the Financial Statements for 2012" of this Annual Report.

In 2012, investment income in the amount of TL 86,773,916 and general expenses in the amount of TL 37,680,852 were transferred from financial accounts to technical accounts. As a result of the increased income on the assets assigned as collateral for Technical Reserves, Investment Income Transferred to Non-life Technical Account went up by 26.55%. Due to the effect of the fluctuation in exchange rates, currency translation losses boomed by 178.5% and reached TL 14,645,711.

(TL)	31.12.2011	31.12.2012	Change (%)
Investment Expense	(114,190,702)	(114,465,738)	0.24
Investment Management Expenses (inc. interest)	(678,809)	(390,732)	(42.44)
Loss from Disposal of Financial Assets	(6,485,612)	(5,103,243)	(21.31)
Investment Income Transferred to Non-Life Technical Section	(68,568,485)	(86,773,916)	26.55
Loss from Derivative Transactions	(26,555,378)	0	(100)
Foreign Exchange Losses	(5,258,045)	(14,645,711)	178.54
Depreciation and Amortization Expenses	(2,193,843)	(2,152,504)	(1.88)
Other Investment Expenses	(4,450,530)	(5,399,632)	21.33

Income and Expenses From Other and Extraordinary Operations

The "Income and Expenses From Other and Extraordinary Operations" account declined year-on with the effect of the deferred tax liability cost, and created a negative effect of TL 23,253,205 on our income statement.

(TL)	31.12.2011	31.12.2012	Change (%)
Income and Expenses From Other and Extraordinary Operations	27,161,207	(23,253,205)	-
Provisions	(6,121,647)	(6,403,075)	4.60
Rediscounts	(89,870)	(147,053)	63.63
Deferred Taxation (Deferred Tax Assets)	38,020,912	0	(100)
Deferred Taxation (Deferred Tax Liabilities)	(4,737,808)	(17,319,883)	265.57
Other Income	145,088	654,533	351.13
Other Expenses and Losses	(55,468)	(37,727)	(31.98)

At the bottom line, the Company's total assets went up by 10.6% year-on and reached TL 1,763,913,538. Having booked a net loss for the period in the amount of TL 144,736,989 as at 31 December 2011, the Company posted a net profit for the period in the amount of TL 98,348,818 in 2012, within the frame of the defined strategies and projections.

Dividend Distribution Policy and Proposal

Dividend Distribution Policy

In relation to dividend distribution, utmost care is taken to maintain the delicate balance between the Company's interests and shareholders' expectations, and due regard is paid to the Company's profitability.

Dividend distribution principles that are determined within the frame of applicable legislation and the Company's Articles of Association are presented below:

The Company's net profit is revenues generated at the end of a fiscal year less general expenses, depreciation, reserves, tax and similar legal and financial obligations, and prior year losses, if any. Out of this amount;

a- 10% legal reserves is set aside;
b- First dividend in the amount of 10% is distributed;
c- From the remaining amount, natural disaster and catastrophe fund may be set aside, if deemed necessary, in amounts to be determined upon proposal of the Board of Directors and based on the resolution passed by the General Assembly;
d- From the balance that remains after setting aside the reserves, first dividends and funds mentioned above from the net profit, 3.5% is paid out to founder shares, and up to 3% to employees, provided that such amount will not exceed three times the salaries of respective recipients, upon proposal by the Board of Directors and approval of the General Assembly;
e- From the amount remaining after the above mentioned allocations and distributions are made, second dividends are paid to shareholders upon proposal of the Board of Directors and based on the resolution passed by the General Assembly, without prejudice to the provisions of applicable legislation.

Dividend Distribution Proposal

In view of the loss our Company posted in 2011 in the amount of TL 144,736,989, no distributable amount arose although a net profit for the period was booked in 2012 in the amount of TL 98,348,818.

		31.12.2012
1.	Profit/Loss for the Period	98,348,818
2.	Taxes Payable (-)	0
3.	Net Profit/Loss for the Period (=)	98,348,818
4.	Losses in Prior Years	(144,736,989)
5.	First Legal Reserves	0
6.	Net Distributable Profit	(46,388,171)
7.	First Dividend to Shareholders	0
8.	Statutory Reserves	0
9.	Second Dividend to Shareholders	0
10.	Second Legal Reserves	0
11.	Extraordinary Reserves	0

Risks and Assessment of the Governing Body

The Risk Management System is intended to protect the reputation of Milli Re and to ensure timely and complete fulfillment of obligations towards insurance companies.

Given the risk-focused nature of the insurance business, insurance and reinsurance companies inevitably establish risk management systems and processes, and systematically 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.

The Company's past and/or potential risk exposure is followed up under two main categories, which are financial and non-financial risks.

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 markets.

Market Risk limits are covered in the "Application Principles for Risk Limits", whereas Investment Portfolio Limits are contained in the "Derivative Products Policy", "Macro Assets Investment Policy", "Investment Policy" and "Alternative Investment Plan".

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 followed-up under Financial Assets Held for Trading Account and under Available-for-Sale Financial Assets and Subsidiaries accounts are evaluated on the basis of İstanbul Stock Exchange (ISE) 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 Method", "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 internal model currently used for calculating the Catastrophe Risk and Reserve 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.

Risk Management activities are conducted in accordance with the Consolidated Risk Policies defined for the risk group in which the Company belongs.

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.

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.

The Annual Reports of the Parent Company in the Group of Companies

The Annual Reports of the Parent Company in the Group of Companies

a- The Parent Company Milli Re holds shares representing 57.31% of the capital of Anadolu Anonim Türk Sigorta Şirketi directly, and 1% and 20% of the capital of Anadolu Hayat ve Emeklilik A.Ş. directly and indirectly, respectively.

b- Enterprises that belong to the Group do not hold shares in the capital of the Parent Company, Milli Re.

c- The Company's Consolidated and Unconsolidated Internal Audit and Risk Management Policies are formulated within the frame of the relevant consolidated policies of the group of companies to which the Company is affiliated, and covers the Company's partnerships subject to consolidation on a line-by-line basis. These are based on the operating principles of Türkiye İş Bankası A.Ş.

Financial Statements and Notes

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
Kavacık Rüzgarlı Bahçe Mah.
Kavak Sok. No: 3
Beykoz 34805 İstanbul

Telephone +90 (216) 681 90 00
Fax +90 (216) 681 90 90
İnternet www.kpmg.com.tr

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 2012 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 2012, 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.

Istanbul, 15 February 2013

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.

CONTENTS

Millî Reasürans Türk Anonim Şirketi
Unconsolidated Balance Sheet as at 31 December 2012

(Currency: Turkish Lira (TL))

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

ASSETS

I- Current Assets	Note	Audited Current Period 31 December 2012	Audited Prior Period 31 December 2011
A- Cash and Cash Equivalents	**14**	**677,226,863**	**582,286,838**
1- Cash	14	24,735	14,067
2- Cheques Received		-	-
3- Banks	14	677,202,128	582,272,771
4- Cheques Given and Payment Orders		-	-
5- Bank Guaranteed Credit Card Receivables With Maturity Less Than Three Months		-	-
6- Other Cash and Cash Equivalents		-	-
B- Financial Assets and Financial Investments with Risks on Policyholders	**11**	**360,820,842**	**306,538,179**
1- Available-for-Sale Financial Assets	11	310,126,411	220,587,319
2- Held to Maturity Investments		-	-
3- Financial Assets Held for Trading	11	50,694,431	85,950,860
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**	**185,066,883**	**243,546,328**
1- Receivables from Insurance Operations		-	-
2- Provision for Receivables from Insurance Operations		-	-
3- Receivables from Reinsurance Operations	12	114,726,420	133,950,306
4- Provision for Receivables from Reinsurance Operations		-	-
5- Cash Deposited to Insurance & Reinsurance Companies	12	70,340,463	109,596,022
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	3,407	3,408
10- Provision for Doubtful Receivables from Main Operations	4.2,12	(3,407)	(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**	**110,476**	**209,412**
1- Finance Lease Receivables		-	-
2- Unearned Finance Lease Interest Income		-	-
3- Deposits and Guarantees Given		71,185	57,275
4- Other Miscellaneous Receivables		39,291	152,137
5- Rediscount on Other Miscellaneous Receivables		-	-
6- Other Doubtful Receivables	12	232,377	28,088
7- Provision for Other Doubtful Receivables	4.2,12	(232,377)	(28,088)
F- Prepaid Expenses and Income Accruals		**117,878,229**	**102,041,319**
1- Deferred Acquisition Costs	17	102,260,739	94,680,589
2- Accrued Interest and Rent Income		-	-
3- Income Accruals	4.2	15,426,591	7,164,002
4- Other Prepaid Expenses		190,899	196,728
G- Other Current Assets		**9,907,866**	**8,103,366**
1- Stocks to be Used in the Following Months		28,735	35,200
2- Prepaid Taxes and Funds	12	9,551,587	7,788,397
3- Deferred Tax Assets		-	-
4- Job Advances	12	1,952	1,952
5- Advances Given to Personnel		-	-
6- Inventory Count Differences		-	-
7- Other Miscellaneous Current Assets		325,592	277,817
8- Provision for Other Current Assets		-	-
I- Total Current Assets		**1,351,011,159**	**1,242,725,442**

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

Millî Reasürans Türk Anonim Şirketi
Unconsolidated Balance Sheet as at 31 December 2012

(Currency: Turkish Lira (TL))

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

ASSETS

II- Non-Current Assets	Note	Audited Current Period 31 December 2012	Audited Prior Period 31 December 2011
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	9,372,557	9,833,504
10- Provision for Doubtful Receivables from Main Operations	4.2,12	(9,372,557)	(9,833,504)
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**	**330,278,828**	**227,120,790**
1- Investments in Equity Shares		-	-
2- Investments in Associates		-	-
3- Capital Commitments to Associates		-	-
4- Investments in Subsidiaries	9	330,278,828	227,120,790
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**	**44,873,572**	**46,124,814**
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	3,503,244	3,356,360
6- Motor Vehicles	6	1,215,214	968,401
7- Other Tangible Assets (Including Leasehold Improvements)		-	-
8- Tangible Assets Acquired Through Finance Leases		-	-
9- Accumulated Depreciation	6	(32,580,670)	(30,935,731)
10- Advances Paid for Tangible Assets (Including Construction in Progress)		-	-
F- Intangible Assets	**8**	**742,324**	**716,800**
1- Rights	8	2,105,443	2,046,157
2- Goodwill		-	-
3- Pre-operating Expenses		-	-
4- Research and Development Costs		-	-
5- Other Intangible Assets		-	-
6- Accumulated Amortization	8	(1,363,119)	(1,329,357)
7- Advances Paid for Intangible Assets		-	-
G- Prepaid Expenses and Income Accruals		**18,176**	**12,518**
1- Deferred Acquisition Costs		-	-
2- Income Accruals		-	-
3- Other Prepaid Expenses		18,176	12,518
H- Other Non-Current Assets	**21**	**36,989,479**	**78,191,494**
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	36,989,479	78,191,494
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		**412,902,379**	**352,166,416**
TOTAL ASSETS		**1,763,913,538**	**1,594,891,858**

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

Millî Reasürans Türk Anonim Şirketi
Unconsolidated Balance Sheet as at 31 December 2012

(Currency: Turkish Lira (TL))

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

LIABILITIES

III- Short-Term Liabilities	Note	Audited Current Period 31 December 2012	Audited Prior Period 31 December 2011
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**	**36,566,230**	**33,104,089**
1- Payables Arising from Insurance Operations		-	-
2- Payables Arising from Reinsurance Operations		35,494,365	32,224,043
3- Cash Deposited by Insurance and Reinsurance Companies		1,071,865	880,046
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**	**121,029**	**124,614**
1- Due to Shareholders	45	72,450	96,618
2- Due to Associates		-	-
3- Due to Subsidiaries		-	-
4- Due to Joint Ventures		-	-
5- Due to Personnel		-	-
6- Due to Other Related Parties	45	48,579	27,996
D- Other Payables	**19**	**412,535**	**605,002**
1- Deposits and Guarantees Received		48,500	13,500
2- Payables to Social Security Institution Related to Treatment Expenses		-	-
3- Other Miscellaneous Payables	19	364,035	591,502
4- Discount on Other Miscellaneous Payables		-	-
E- Insurance Technical Provisions	**17**	**1,008,634,370**	**1,064,935,125**
1- Reserve for Unearned Premiums - Net	17	387,033,147	402,923,137
2- Reserve for Unexpired Risks- Net	17	1,576,119	68,909,804
3- Life Mathematical Provisions - Net	17	1,020,079	1,377,701
4- Provision for Outstanding Claims - Net	17	619,005,025	591,724,483
5- Provision for Bonus and Discounts - Net		-	-
6- Other Technical Provisions - Net		-	-
F- Provisions for Taxes and Other Similar Obligations	**19**	**897,529**	**1,056,498**
1- Taxes and Funds Payable		813,764	975,447
2- Social Security Premiums Payable		83,765	81,051
3- Overdue, Deferred or By Installment Taxes and Other Liabilities		-	-
4- Other Taxes and Similar Payables	-	-	-
5- Corporate Tax Payable	19	-	220,899
6- Prepaid Taxes and Other Liabilities Regarding Current Year Income	19	-	(220,899)
7- Provisions for Other Taxes and Similar Liabilities		-	-
G- Provisions for Other Risks		**-**	**-**
1- Provision for Employee Termination Benefits		-	-
2- Provision for Pension Fund Deficits		-	-
3- Provisions for Costs		-	-
H- Deferred Income and Expense Accruals	**19**	**4,185,235**	**3,600,955**
1- Deferred Commission Income	10,19	934,576	819,526
2- Expense Accruals		3,123,239	2,661,612
3- Other Deferred Income		127,420	119,817
I- Other Short Term Liabilities		**-**	**-**
1- Deferred Tax Liabilities		-	-
2- Inventory Count Differences		-	-
3- Other Various Short Term Liabilities		-	-
III- Total Short Term Liabilities		**1,050,816,928**	**1,103,426,283**

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

Millî Reasürans Türk Anonim Şirketi
Unconsolidated Balance Sheet as at 31 December 2012

(Currency: Turkish Lira (TL))

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

LIABILITIES

IV- Long-Term Liabilities	Note	Audited Current Period 31 December 2012	Audited Prior Period 31 December 2011
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- Payables to Social Security Institution Related to Treatment Expenses		-	-
3- Other Miscellaneous Payables		-	-
4- Discount on Other Miscellaneous Payables		-	-
E- Insurance Technical Provisions	**17**	**18,263,349**	**14,370,512**
1- Reserve for Unearned Premiums - Net		-	-
2- Reserve for Unexpired Risks - Net		-	-
3- Life Mathematical Provisions - Net		-	-
4- Provision for Outstanding Claims - Net		-	-
5- Provision for Bonus and Discounts - Net		-	-
6- Other Technical Provisions - Net	17	18,263,349	14,370,512
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**	**36,418,608**	**29,758,875**
1- Provisions for Employment Termination Benefits	23	5,323,213	4,588,628
2- Provisions for Pension Fund Deficits	22,23	31,095,395	25,170,247
H- Deferred Income and Expense Accruals	**19**	**16,667**	**66,667**
1- Deferred Commission Income		-	-
2- Expense Accruals		-	-
3- Other Deferred Income	19	16,667	66,667
I- Other Long Term Liabilities		**-**	**-**
1- Deferred Tax Liabilities		-	-
2- Other Long Term Liabilities		-	-
IV- Total Long Term Liabilities		**54,698,624**	**44,196,054**

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

Unconsolidated Balance Sheet as at 31 December 2012

(Currency: Turkish Lira (TL))

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

EQUITY

V- Equity	Note	Audited Current Period 31 December 2012	Audited Prior Period 31 December 2011
A- Paid in Capital		**615,000,000**	**615,000,000**
1- (Nominal) Capital	2.13,15	615,000,000	615,000,000
2- Unpaid Capital (-)		-	-
3- Positive Capital Restatement Differences		-	-
4- Negative Capital Restatement Differences (-)		-	-
5- Unregistered Capital		-	-
B- Capital Reserves	**15**	**(3,588,736)**	**(5,367,227)**
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	(3,588,736)	(5,367,227)
5- Other Capital Reserves		-	-
C- Profit Reserves		**93,374,893**	**(17,626,263)**
1- Legal Reserves	15	49,622,694	49,622,694
2- Statutory Reserves	15	39,500,000	39,500,000
3- Extraordinary Reserves	15	5,512,899	5,512,899
4- Special Funds		-	-
5- Revaluation of Financial Assets	11,15	(1,260,700)	(112,261,856)
6- Other Profit Reserves		-	-
D- Retained Earnings		**-**	**-**
1- Retained Earnings		-	-
E- Accumulated Losses		**(144,736,989)**	**-**
1- Accumulated Losses		(144,736,989)	-
F- Net Profit/(Loss) for the Year		**98,348,818**	**(144,736,989)**
1- Net Profit for the Year		98,348,818	-
2- Net Loss for the Year		-	(144,736,989)
3- Net Profit for the Period not Subject to Distribution		-	-
V- Total Equity		**658,397,986**	**447,269,521**
TOTAL EQUITY AND LIABILITIES		**1,763,913,538**	**1,594,891,858**

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 2012

(Currency: Turkish Lira (TL))

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

I- TECHNICAL SECTION	Note	Audited Current Period 31 December 2012	Audited Prior Period 31 December 2011
A- Non-Life Technical Income		**1,092,092,510**	**898,125,471**
1- Earned Premiums (Net of Reinsurer Share)		990,602,040	765,545,206
1.1- Written Premiums (Net of Reinsurer Share)	17	907,722,546	889,617,820
1.1.1- Written Premiums, gross	17	1,010,293,358	974,558,187
1.1.2- Written Premiums, ceded	10, 17	(102,570,812)	(84,940,367)
1.1.3- Written Premiums, SSI share		-	-
1.2- Change in Reserve for Unearned Premiums (Net of Reinsurer Shares and Less the Amounts Carried Forward)	17, 29	15,545,809	(65,696,708)
1.2.1- Reserve for Unearned Premiums, gross	17	19,768,587	(72,925,529)
1.2.2- Reserve for Unearned Premiums, ceded	10,17	(4,222,778)	7,228,821
1.2.3- Reserve for Unearned Premiums, SSI share		-	-
1.3- Change in Reserve for Unexpired Risks (Net of Reinsurer Share and Less the Amounts Carried Forward)		67,333,685	(58,375,906)
1.3.1- Reserve for Unexpired Risks, gross		69,157,302	(60,106,933)
1.3.2- Reserve for Unexpired Risks, ceded		(1,823,617)	1,731,027
2- Investment Income - Transferred from Non-Technical Section		86,773,916	68,568,485
3- Other Technical Income (Net of Reinsurer Share)		14,716,554	64,011,780
3.1- Other Technical Income, gross		14,715,538	64,011,780
3.2- Other Technical Income, ceded		1,016	-
4. Accrued Salvage and Subrogation Income		-	-
B- Non-Life Technical Expense		**(993,759,547)**	**(1,096,811,654)**
1- Incurred Losses (Net of Reinsurer Share)		(713,137,915)	(855,842,428)
1.1- Claims Paid (Net of Reinsurer Share)	17, 29	(686,184,266)	(656,622,779)
1.1.1- Claims Paid, gross	17	(714,698,585)	(673,374,274)
1.1.2- Claims Paid, ceded	10, 17	28,514,319	16,751,495
1.2- Change in Provisions for Outstanding Claims (Net of Reinsurer Share and Less the Amounts Carried Forward)	17, 29	(26,953,649)	(199,219,649)
1.2.1- Change in Provisions for Outstanding Claims, gross	17	(18,554,474)	(205,155,853)
1.2.2- Change in Provisions for Outstanding Claims, ceded	10, 17	(8,399,175)	5,936,204
2- Change in Provision for Bonus and Discounts (Net of Reinsurer Share and Less the Amounts Carried Forward)		-	-
2.1- Provision for Bonus and Discounts, gross		-	-
2.2- Provision for Bonus and Discounts, ceded		-	-
3- Change in Other Technical Reserves (Net of Reinsurer Share and Less the Amounts Carried Forward)	29	(3,640,558)	1,669,500
4- Operating Expenses	32	(276,981,074)	(242,638,726)
5- Change in Mathematical Provisions (Net of Reinsurer Share and Less the Amounts Carried Forward)		-	-
5.1- Mathematical Provisions		-	-
5.2- Mathematical Provisions, ceded		-	-
6- Other Technical Expense		-	-
6.1- Other Technical Expense, gross		-	-
6.2- Other Technical Expense, ceded		-	-
C- Net Technical Income-Non-Life (A – B)		**98,332,963**	**(198,686,183)**
D- Life Technical Income		**21,192,665**	**17,763,764**
1- Earned Premiums (Net of Reinsurer Share)		19,881,882	16,338,915
1.1- Written Premiums (Net of Reinsurer Share)	17	19,537,701	16,791,181
1.1.1- Written Premiums, gross	17	20,487,622	17,434,891
1.1.2- Written Premiums, ceded	10, 17	(949,921)	(643,710)
1.2- Change in Reserve for Unearned Premiums (Net of Reinsurer Shares and Less the Amounts Carried Forward)	17, 29	344,181	(452,266)
1.2.1- Reserve for Unearned Premiums, gross	17	242,510	(214,301)
1.2.2- Reserve for Unearned Premiums, ceded	10, 17	101,671	(237,965)
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		1,292,350	1,371,200
3- Unrealized Gains on Investments		-	-
4- Other Technical Income (Net of Reinsurer Share)		18,433	53,649
4.1- Other Technical Income, gross		18,433	53,649
4.2- Other Technical Income, ceded		-	-
5- Accrued Salvage and Subrogation Income		-	-

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 2012

(Currency: Turkish Lira (TL))

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

I- TECHNICAL SECTION	**Note**	**Audited Current Period 31 December 2012**	**Audited Prior Period 31 December 2011**
E- Life Technical Expense		**(14,423,026)**	**(15,199,473)**
1- Incurred Losses (Net of Reinsurer Share)		(6,345,198)	(6,677,005)
1.1- Claims Paid (Net of Reinsurer Share)	17,29	(6,018,305)	(6,823,372)
1.1.1- Claims Paid, gross	17	(6,442,406)	(6,840,714)
1.1.2- Claims Paid, ceded	10,17	424,101	17,342
1.2- Change in Provisions for Outstanding Claims (Net of Reinsurer Share and Less the Amounts Carried Forward)	17,29	(326,893)	146,367
1.2.1- Change in Provisions for Outstanding Claims, gross	17	(357,681)	17,103
1.2.2- Change in Provisions for Outstanding Claims, ceded	10, 17	30,788	129,264
2- Change in Provision for Bonus and Discounts (Net of Reinsurer Share and Less the Amounts Carried Forward)		-	-
2.1- Provision for Bonus and Discounts, gross		-	-
2.2- Provision for Bonus and Discounts, ceded		-	-
3- Change in Life Mathematical Provisions (Net of Reinsurer Share and Less the Amounts Carried Forward)	29	357,622	(184,915)
3.1- Change in Mathematical Provisions, gross	29	357,622	(184,915)
3.1.1- Actuarial Mathematical Provisions		357,622	(184,915)
3.1.2- Profit Sharing Provisions (Provisions for Policies Investment Risks of Which Belong to Life Insurance Policyholders)		-	-
3.2- Change in Mathematical Provisions, ceded		-	-
3.2.1- Actuarial Mathematical Provisions, ceded		-	-
3.2.2- Profit Sharing Provisions, ceded (Provisions for Policies Investment Risks of Which Belong to Life Insurance Policyholders)		-	-
4- Change in Other Technical Reserves (Net of Reinsurer Share and Less the Amounts Carried Forward)	29	(252,279)	(197,964)
5- Operating Expenses	32	(8,183,171)	(8,139,589)
6- Investment Expenses		-	-
7- Unrealized Losses on Investments		-	-
8- Investment Income Transferred to the Non-Life Technical Section		-	-
F- Net Technical Income- Life (D – E)		**6,769,639**	**2,564,291**
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 2012

(Currency: Turkish Lira (TL))

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

II- NON-TECHNICAL SECTION	**Note**	**Audited Current Period 31 December 2012**	**Audited Prior Period 31 December 2011**
C- Net Technical Income – Non-Life (A-B)		**98,332,963**	**(198,686,183)**
F- Net Technical Income – Life (D-E)		**6,769,639**	**2,564,291**
I - Net Technical Income – Pension Business (G-H)		**-**	**-**
J- Total Net Technical Income (C+F+I)		**105,102,602**	**(196,121,892)**
K- Investment Income		**130,965,159**	**138,635,297**
1- Income from Financial Assets	4.2	80,361,831	55,425,408
2- Income from Disposal of Financial Assets	4.2	17,988,874	41,762,980
3- Valuation of Financial Assets	4.2	14,245,584	(22,731,963)
4- Foreign Exchange Gains	4.2	8,333,438	26,162,503
5- Income from Associates	4.2	-	5,407,979
6- Income from Subsidiaries and Joint Ventures	4.2	-	5,733,312
7- Income from Property, Plant and Equipment	7	9,694,494	8,495,691
8- Income from Derivative Transactions	4.2	333,499	18,351,708
9- Other Investments		7,439	27,679
10- Income Transferred from Life Section		-	-
L- Investment Expense		**(114,465,738)**	**(114,190,702)**
1- Investment Management Expenses (inc. interest)	4.2	(390,732)	(678,809)
2- Diminution in Value of Investments		-	-
3- Loss from Disposal of Financial Assets	4.2	(5,103,243)	(6,485,612)
4- Investment Income Transferred to Non-Life Technical Section		(86,773,916)	(68,568,485)
5- Loss from Derivative Transactions	4.2	-	(26,555,378)
6- Foreign Exchange Losses	4.2	(14,645,711)	(5,258,045)
7- Depreciation and Amortization Expenses	6, 8	(2,152,504)	(2,193,843)
8- Other Investment Expenses		(5,399,632)	(4,450,530)
M- Income and Expenses From Other and Extraordinary Operations		**(23,253,205)**	**27,161,207**
1- Provisions	47	(6,403,075)	(6,121,647)
2- Rediscounts	47	(147,053)	(89,870)
3- Specified Insurance Accounts		-	-
4- Monetary Gains and Losses		-	-
5- Deferred Taxation (Deferred Tax Assets)	35	-	38,020,912
6- Deferred Taxation (Deferred Tax Liabilities)	35	(17,319,883)	(4,737,808)
7- Other Income		654,533	145,088
8- Other Expenses and Losses		(37,727)	(55,468)
9- Prior Year’s Income		-	-
10- Prior Year’s Expenses and Losses		-	-
N- Net Profit for the Year		**98,348,818**	**(144,736,989)**
1- Profit for the Year		98,348,818	(144,516,090)
2- Corporate Tax Provision and Other Fiscal Liabilities	35	-	(220,899)
3- Net Profit for the Year		98,348,818	(144,736,989)
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 2012

(Currency: Turkish Lira (TL))

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

Audited Changes in Equity – 31 December 2011

	Note	Paid-in Capital	Own Shares of the Company	Revaluation of Financial Assets	Inflation Adjustment
I - Balance at the end of the previous year – 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		-	-	-	-
J- Dividends paid		-	-	-	-
II- Balance at the end of the year – 31 December 2011		**615,000,000**	**-**	**(112,261,856)**	**-**

Audited Changes in Equity – 31 December 2012

	Note	Paid-in Capital	Own Shares of the Company	Revaluation of Financial Assets	Inflation Adjustment
I - Balance at the end of the previous year – 31 December 2011		**615,000,000**	**-**	**(112,261,856)**	**-**
A- Capital increase (A1+A2)		-	-	-	-
1- In cash		-	-	-	-
2- From reserves		-	-	-	-
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		-	-	111,001,156	-
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		-	-	-	-
II- Balance at the end of the year – 31 December 2012		**615,000,000**	**-**	**(1,260,700)**	**-**

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

	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**
	-	-	(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**

	Currency Translation Adjustment	Legal Reserves	Statutory Reserves	Other Reserves and Retained Earnings	Net Profit for the Year	Retained Earnings	Total
	(5,367,227)	**49,622,694**	**39,500,000**	**5,512,899**	**(144,736,989)**	**-**	**447,269,521**
	-	-	-	-	-	-	**-**
	-	-	-	-	-	-	**-**
	-	-	-	-	-	-	**-**
	-	-	-	-	-	-	**-**
	-	-	-	-	-	-	**-**
	-	-	-	-	-	-	**111,001,156**
	1,778,491	-	-	-	-	-	**1,778,491**
	-	-	-	-	-	-	**-**
	-	-	-	-	-	-	**-**
	-	-	-	-	98,348,818	-	**98,348,818**
	-	-	-	-	144,736,989	(144,736,989)	**-**
	-	-	-	-	-	-	**-**
	(3,588,736)	**49,622,694**	**39,500,000**	**5,512,899**	**98,348,818**	**(144,736,989)**	**658,397,986**

Millî Reasürans Türk Anonim Şirketi
Unconsolidated Statement of Cash Flows for the Year Ended 31 December 2012

(Currency: Turkish Lira (TL))

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

	Note	Audited Current Period 31 December 2012	Audited Prior Period 31 December 2011
A. Cash flows from operating activities			
1. Cash provided from insurance activities		-	-
2. Cash provided from reinsurance activities		1,136,383,369	1,075,487,665
3. Cash provided from private pension business		-	-
4. Cash used in insurance activities		-	-
5. Cash used in reinsurance activities		(1,125,674,366)	(1,076,158,036)
6. Cash used in private pension business		-	-
7. Cash provided from operating activities		**10,709,003**	**(670,371)**
8. Interest paid		-	-
9. Income taxes paid		-	(8,009,296)
10. Other cash inflows		1,434,854	6,873,774
11. Other cash outflows		(453,401)	(6,295,723)
12. Net cash provided from operating activities		**11,690,456**	**(8,101,616)**
B. Cash flows from investing activities			
1. Proceeds from disposal of tangible assets		122,453	41,430
2. Acquisition of tangible assets	6, 8	(965,850)	(876,422)
3. Acquisition of financial assets	11	(520,977,165)	(474,472,686)
4. Proceeds from disposal of financial assets		526,115,332	638,940,328
5. Interests received		76,521,901	66,128,644
6. Dividends received		2,606,901	8,539,664
7. Other cash inflows		20,058,813	53,037,581
8. Other cash outflows		(279,285,358)	(105,615,724)
9. Net cash provided by/(used in) investing activities		**(175,802,973)**	**185,722,815**
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)
5. Other cash inflows		-	-
6. Other cash outflows		-	-
7. Net cash provided by financing activities		**-**	**(34,906,896)**
D. Effect of exchange rate fluctuations on cash and cash equivalents		**276**	**942**
E. Net increase/(decrease) in cash and cash equivalents		**(164,112,241)**	**142,715,245**
F. Cash and cash equivalents at the beginning of the year	**14**	**522,974,990**	**380,259,745**
G. Cash and cash equivalents at the end of the year	**14**	**358,862,749**	**522,974,990**

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

Millî Reasürans Türk Anonim Şirketi
Unconsolidated Statement of Profit Distribution for the Year Ended 31 December 2012

(Currency: Turkish Lira (TL))

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

	Note	Current Period 31 December 2012 (*)	Prior Period 31 December 2011
I. DISTRIBUTION OF THE PERIOD PROFIT			
1.1. PERIOD PROFIT		98,348,818	(144,516,090)
1.2. TAXES AND DUTIES PAYABLE	35	-	220,899
1.2.1. Corporate Tax (Income Tax)	35	-	220,899
1.2.2. Income Tax Deductions		-	-
1.2.3. Other Taxes and Legal Duties		-	-
A. CURRENT PERIOD PROFIT (1.1 – 1.2)		**98,348,818**	**(144,736,989)**
1.3. ACCUMULATED LOSSES (-)		(144,736,989)	-
1.4. FIRST LEGAL RESERVES (-)		-	-
1.5. OTHER STATUTORY RESERVES (-)		-	-
B. NET PROFIT AVAILABLE FOR DISTRIBUTION [(A - (1.3 + 1.4 + 1.5)]		**(46,388,171)**	-
1.6. FIRST DIVIDEND TO SHAREHOLDERS (-)		-	-
1.6.1. To owners of ordinary shares		-	-
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 (-)		-	-
1.8. DIVIDENDS TO FOUNDERS (-)		-	-
1.9. DIVIDENDS TO BOARD OF DIRECTORS (-)		-	-
1.10. SECOND DIVIDEND TO SHAREHOLDERS (-)		-	-
1.10.1. To owners of ordinary shares		-	-
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 (-)		-	-
1.12. STATUTORY RESERVES (-)		-	-
1.13. EXTRAORDINARY RESERVES		-	-
1.14 OTHER RESERVES		-	-
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		-	-
3.2. TO OWNERS OF ORDINARY SHARES (%)		-	-
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		-	-
4.2. TO OWNERS OF ORDINARY SHARES (%)		-	-
4.3. TO OWNERS OF PRIVILEGED SHARES		-	-
4.4. TO OWNERS OF PRIVILEGED SHARES (%)		-	-

(*) Since the Company does not have net profit available for distribution for the year ended 31 December 2012, 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 2012, 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 2012	31 December 2011
Senior managers	7	6
Managers	20	21
Officers	121	122
Contracted personnel	8	8
Other personnel	50	50
Total	**206**	**207**

1.6 Wages and similar benefits provided to the senior management

For the year ended 31 December 2012, 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 4,067,644 (31 December 2011: TL 4,051,161).

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.

(Currency: Turkish Lira (TL))

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 2012 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 2012, non-monetary assets and liabilities and items included in shareholders' equity including paid-in capital recognized or recorded before 1 January 2005 are measured as restated to 31 December 2004 in order to reflect inflation adjustments. Non-monetary assets and liabilities and items included in shareholders' equity including paid-in capital recognized or recorded after 1 January 2005 are measured at their nominal values.

Other accounting policies

The Company recorded premiums, commissions and claims accruals based on the notifications sent by the insurance and reinsurance companies after the closing of their balances. Premiums, commissions and claims accruals are recorded in the accompanying financial statements with the three-month delay. Therefore, related income statement balances include last quarter results for the year ended 31 December 2011 and nine-month results as at and for the period ended 30 September 2012 and accordingly related balance sheet balances as at 31 December 2012 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

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 2012, 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 2012. 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 cedant 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.

According to 16th article of "Circular on Actuarial Chain Ladder Method (2010/12)" dated 20 September 2010 and announced by Turkish Treasury, ACML calculation should be made through main branches. However, as at 31 December 2012, the Company has calculated ACML reserve for General Losses main branch as two separate subbranches namely agriculture and non agriculture branches. Because, Agriculture and Engineering subbranches under General Losses main branch have different characteristics in conversion process of outstanding losses to paid losses, IBNR calculation of General Losses branch produces unreliable and improper results. The Company applied to Turkish Treasury on 17 January 2013 with letter numbered 300, so as to receive permission to calculate IBNR reserve for General Losses branch as agriculture and non agriculture subbranches separately. Turkish Treasury has given permission the Company in order to calculate IBNR reserve for General Losses within two subbranches with the letter dated 28 January 2013 and numbered 24179134. As at 31 December 2012, the Company recognised the amount that arised due to change in calculation method for IBNR on General Losses branch.

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.

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 2012 and 2011.

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

(Currency: Turkish Lira (TL))

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. As at 31 December 2012, the Company operates in life and non-life branches and is not required to present segment reporting since its debt or equity instruments are not traded in a public market.

2.4 Foreign currency transactions

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

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

2.5 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.

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.

(Currency: Turkish Lira (TL))

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 2012 and 2011, the share capital and ownership structure of the Company are as follows:

	31 December 2012		31 December 2011	
Name	**Shareholding amount (TL)**	**Shareholding rate (%)**	**Shareholding amount (TL)**	**Shareholding rate (%)**
Türkiye İş Bankası AŞ	471,323,817	76.64	471,323,817	76.64
Millî Reasürans TAŞ Mensupları Yardımlaşma Sandığı Vakfı	64,840,594	10.54	64,833,521	10.54
Groupama Emeklilik AŞ	36,163,765	5.88	36,163,765	5.88
T.C. Başbakanlık Hazine Müsteşarlığı	20,724,061	3.37	20,724,061	3.37
T.C. Ziraat Bankası AŞ	15,310,652	2.49	15,310,652	2.49
Others	6,637,111	1.08	6,644,184	1.08
Paid in capital	**615,000,000**	**100.00**	**615,000,000**	**100.00**

Sources of the capital increases during the year

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

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.

There is not any capital increase during the current period.

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 risks covers all risks 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 2012, the Company has deductible tax losses, amounting to TL 125,925,050 (31 December 2011: 102,026,257 TL).

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.

(Currency: Turkish Lira (TL))

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. Decree of the Council of Ministers about two years extending transfer duration, was published in the Official Gazette on 9 April 2011. Based on this, expiration date has been extended to 8 May 2013 from the expiration date on 8 May 2011. On 8 March 2012, "Amendments to the Social Security and General Health Insurance Act Including Certain Laws and Decrees" numbered 28227, was published on Official Gazette and 4th article of this act changed "two years" phrase as "four years" which takes part on second sentence of first clause of 20th article of the code numbered 5510. Decree of the council of ministers will be published on future and decides on transfer principles.

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:

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

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

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 2012 is TL 3,034 (31 December 2011: TL 2,732).

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 2012 and 2011 are as follows:

	31 December 2012	31 December 2011
Discount rate	3.77%	3.77%
Expected rate of salary/limit increase	5.00%	5.00%
Estimated employee turnover rate	2.00%	5.26%

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 27 March 2012, since the Company has loss amounting to TL 144,736,989 for the year ended 31 December 2011, it has been decided that the profit distribution is not made.

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.

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.

(Currency: Turkish Lira (TL))

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 2012	31 December 2011
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
Air crafts	Standard Chain Ladder	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 9/2011)
Legal protection	Standard Chain Ladder	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 9/2011)
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 9/2011)
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 9/2011)
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 9/2011)
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 9/2011)
Financial losses	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 9/2011)	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 9/2011)
Credit	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 9/2011)	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 9/2011)
Life	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 9/2011)	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 9/2011)

(*) Two separate calculation have been made as agriculture and non agriculture subbranches.

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, breach of trust, financial losses, 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 “Circular Related to Information on Calculation of Incurred But Not Reported Claims Reserve” numbered 2011/23 and dated 26 December 2011, as of the reporting date, negative IBNR balances are considered as 100% instead of 50%.

According to 16th article of “Circular on Actuarial Chain Ladder Method (2010/12)” dated 20 September 2010 and announced by Turkish Treasury, ACML calculation should be made through main branches. However, as at 31 December 2012, the Company has calculated ACML reserve for General Losses main branch as two separate subbranches namely agriculture and non agriculture branches. Because, Agriculture and Engineering subbranches under General Losses main branch have different characteristics in conversion process of outstanding losses to paid losses, IBNR calculation of General Losses branch produces unreliable and improper results. The Company applied to Turkish Treasury on 17 January 2013 with letter numbered 300, so as to receive permission to calculate IBNR reserve for General Losses branch as agriculture and non agriculture subbranches separately. Turkish Treasury has given permission the Company in order to calculate IBNR reserve for General Losses within two subbranches with the letter dated 28 January 2013 and numbered 24179134. As at 31 December 2012, the Company recognised the amount that arised due to change in calculation method for IBNR on General Losses branch.

As at the reporting date, as a result of actuarial chain ladder method; the Company except Singapore branch recorded 100% of additional negative IBNR amounting to TL 8,170,590 (31 December 2011: TL 39,805,662 positive IBNR, 90%) as provision for outstanding claims. As at the reporting date, TL 21,964,570 (31 December 2011: TL 27,608,454) 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 main 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 main 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.

Calculation of Reserve for unexpired risks is made on the basis of main branches, within the context of circular of Turkish Treasury, numbered 2012/15 and dated 10 December 2012.

As at the reporting date, the Company has provided net reserve for unexpired risk amounting to TL 1,576,119 in the accompanying unconsolidated financial statements (31 December 2011: TL 68,909,804).

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. As at the reporting date, the Company has recognized equalization provision amounting to TL 18,263,349 (31 December 2011: TL 14,370,512).

As at 31 December 2012, the Company has deducted TL 13,768,655 (31 December 2011: TL 15,626,201) from equalization provision in consequence of realized earthquake losses.

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

As of 31 December 2012, a number of new standards and amendments to existing standards and interpretations which are not adopted in the preparation of accompanying financial statements and are not yet effective for the year ended 31 December 2012. These new standards are not expected to have any impact on the financial statements of the Company, with the exception of TFRS 9 – Financial instruments, 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*.

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.

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 not material effect on the Company's financials

- TFRS 11 – *Joint Arrangements;* supersedes IAS 31 – Interests in Joint Ventures; focuses on the rights and obligations of joint arrangements, rather than the legal form. Related standard will be adopted starting from 1 January 2013 and following annual reporting periods.
- TAS 27 – *Separate Financial Statements*; carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. Related change will be adopted starting from 1 January 2013 and following annual reporting periods.
- TAS 28 – *Investments in Associates and joint Ventures*; changes related to jointly controlled entities. Related change will be adopted starting from 1 January 2013 and following annual reporting periods.

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.

(Currency: Turkish Lira (TL))

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 in terms of its severity and any potential losses incurred in accordance with the generally accepted international earthquake models.

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 2012		
Branches	**Gross total claims liability (*)**	**Reinsurance share of total claims liability**	**Net total claims liability**
Fire and natural disasters	251,515,927	(23,349,322)	228,166,605
General losses	153,398,685	(1,920,748)	151,477,937
Motor vehicles	103,286,776	(16,270)	103,270,506
Motor vehicles liability (MTPL)	82,123,613	(101,592)	82,022,021
Health	60,896,463	(19,013)	60,877,450
Water vehicles	17,977,074	(1,095,436)	16,881,638
Transportation	15,841,689	(846,609)	14,995,080
Accident	15,120,573	(731,263)	14,389,310
General responsibility	12,682,430	(414,282)	12,268,148
Life	6,442,405	(424,101)	6,018,304
Financial losses	879,893	(19,307)	860,586
Air crafts	424,519	-	424,519
Credit	288,187	-	288,187
Breach of trust	198,400	(234)	198,166
Water vehicles liability	55,913	-	55,913
Legal protection	8,444	(243)	8,201
Total	**721,140,991**	**(28,938,420)**	**692,202,571**

	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
General losses	132,583,504	(1,685,382)	130,898,122
Motor vehicles	124,173,112	(51,086)	124,122,026
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**

(*) 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 analysis. 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 are evaluated by the Risk Committee and are 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 2012	31 December 2011
Cash and cash equivalents *(Note 14)*	677,202,128	582,272,771
Financial assets and financial investments with risks on policyholders *(Note 11)* (*)	253,407,116	238,179,715
Receivables from main operations *(Note 12)*	185,066,883	243,546,328
Reinsurer share in provision for outstanding claims *(Note 10), (Note 17)*	30,957,945	39,326,332
Income accruals	15,426,591	7,164,002
Prepaid taxes and funds *(Note 12)*	9,551,587	7,788,397
Other receivables *(Note 12)*	110,476	209,412
Other current asset *(Note 12)*	1,952	1,952
Total	**1,171,724,678**	**1,118,488,909**

(*) Equity shares amounting to TL 107,413,726 are not included (31 December 2011: TL 68,358,464).

(Currency: Turkish Lira (TL))

31 December 2012 ve 2011, the aging of the receivables from main operations and related provisions are as follows:

	31 December 2012		31 December 2011	
	Gross amount	**Provision**	**Gross amount**	**Provision**
Not past due	136,658,598	-	145,690,275	-
Past due 0-30 days	25,778,339	-	63,479,570	-
Past due 31-60 days	6,036,368	-	3,968,710	-
Past due 61-90 days	4,349,110	-	15,896,583	-
More than 90 days	21,620,432	(9,375,964)	24,348,102	(9,836,912)
Total	**194,442,847**	**(9,375,964)**	**253,383,240**	**(9,836,912)**

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

	31 December 2012	31 December 2011
Provision for receivables from insurance operations at the beginning of the year	9,836,912	8,374,541
Collections during the period *(Note 47)*	-	(33,789)
Foreign currency translation effect *(Note 47)*	(460,948)	1,496,160
Provision for receivables from insurance operations at the end of the year	**9,375,964**	**9,836,912**

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

	31 December 2012	31 December 2011
Provision for other receivables at the beginning of the year	28,088	16,621
Collections during the period *(Note 47)*	(56,000)	(5,032)
Impairment losses provided during the period *(Note 47)*	260,289	16,499
Provision for other receivables at the end of the year	**232,377**	**28,088**

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.

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.

(Currency: Turkish Lira (TL))

Maturity distribution of monetary assets and liabilities:

31 December 2012	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	677,226,863	413,143,095	218,596,500	26,405,296	19,081,972	-
Financial assets (*)	253,407,116	25,907,242	913,228	4,773,743	75,984,132	145,828,771
Receivables from main operations	185,066,883	62,130,648	29,042,028	12,122,693	81,771,514	-
Other receivables and current assets	25,090,606	25,010,152	-	-	80,454	-
Total monetary assets	**1,140,791,468**	**526,191,137**	**248,551,756**	**43,301,732**	**176,918,072**	**145,828,771**
Insurance technical provisions (**)	619,005,025	-	-	-	-	619,005,025
Provisions for other risks and expense accruals	39,541,847	3,123,239	-	-	-	36,418,608
Payables arising from main operations	36,566,230	30,480,054	5,800,443	18,905	266,828	-
Other liabilities	412,535	412,535	-	-	-	-
Due to related parties	121,029	121,029	-	-	-	-
Total monetary liabilities	**695,646,666**	**34,136,857**	**5,800,443**	**18,905**	**266,828**	**655,423,633**

(*) Equity shares amounting to TL 107,413,726 are not included.
(**) Provision for outstanding claims not subject to consistent distribution is presented in the "over 1 year" column.

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	32,420,487	-	2,661,612	-	-	29,758,875
Due to related parties	124,614	124,614	-	-	-	-
Other liabilities	605,002	591,502	-	13,500	-	-
Total monetary liabilities	**657,978,675**	**21,656,940**	**14,326,042**	**512,335**	**-**	**621,483,358**

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

Market risk

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

Foreign currency risk

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

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

(Currency: Turkish Lira (TL))

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

31 December 2012	US Dollar	Euro	Other currencies	Total
Assets:				
Cash and cash equivalents	89,551,650	17,174,316	11,826,530	118,552,496
Financial assets and financial investments with risks on policyholders	4,257,009	10,954,110	-	15,211,119
Receivables from main operations	42,608,983	20,088,448	63,298,663	125,996,094
Total foreign currency assets	**136,417,642**	**48,216,874**	**75,125,193**	**259,759,709**
Liabilities:				
Payables arising from main operations	(6,173,861)	(1,243,081)	-	(7,416,942)
Insurance technical provisions (*)	(121,742,091)	(127,742,131)	(63,366,333)	(312,850,555)
Total foreign currency liabilities	**(127,915,952)**	**(128,985,212)**	**(63,366,333)**	**(320,267,497)**
Net on-balance sheet position	**8,501,690**	**(80,768,338)**	**11,758,860**	**(60,507,788)**

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**

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

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

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

	At the end of the period		Average	
	US Dollar	**Euro**	**US Dollar**	**Euro**
31 December 2012	1.7826	2.3517	1.7925	2.2864
31 December 2011	1.8889	2.4438	1.6700	2.3224

(Currency: Turkish Lira (TL))

Exposure to foreign currency risk

A 10 percent depreciation of the TL against the following currencies as at 31 December 2012 and 2011 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 2012		31 December 2011	
	Profit or loss	Equity (*)	Profit or loss	Equity (*)
US Dollar	850,169	850,169	2,213,267	2,213,267
Euro	(8,076,834)	(8,076,834)	(1,347,141)	(1,347,141)
Others	1,175,886	1,175,886	1,217,142	1,217,142
Total, net	**(6,050,779)**	**(6,050,779)**	**2,083,268**	**2,083,268**

(*) 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 2012	31 December 2011
Financial assets with fixed interest rates:	***780,632,299***	***667,651,963***
Cash at banks *(Note 14)*	672,163,460	576,194,799
Available for sale financial assets – Government bonds – TL *(Note 11)*	101,668,131	57,143,647
Available for sale financial assets – Private sector bonds – TL *(Note 11)*	2,543,699	11,550,813
Financial assets held for trading – Eurobonds *(Note 11)*	4,257,009	22,762,704
Financial assets held for trading – Private sector bonds – TL *(Note 11)*	-	-
Financial assets with variable interest rate:	***120,114,266***	***125,643,672***
Available for sale financial assets – Government bonds– TL *(Note 11)*	83,234,012	83,320,169
Available for sale financial assets – Private sector bonds – TL *(Note 11)*	17,920,805	21,739,385
Financial assets held for trading – Private sector bonds – TL *(Note 11)*	18,959,449	14,342,393
Financial assets held for trading – Government bonds – TL *(Note 11)*	-	6,241,725
Financial liabilities:	None.	None.

Interest rate sensitivity of the financial instruments

Interest rate sensitivity of the statement of income is the effect of the assumed changes in interest rates on the fair values of financial assets at fair value through profit or loss and on the net interest income as at and for 31 December 2012 and 2011 of the floating rate non-trading financial assets and financial liabilities held at 31 December 2012 and 2011. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss		Equity	
31 December 2012	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Financial assets held for trading	(41,386)	41,661	(41,386)	41,661
Available for sale financial assets	-	-	(4,142,134)	4,478,022
Total, net	**(41,386)**	**41,661**	**(4,183,520)**	**4,519,683**

	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**

(Currency: Turkish Lira (TL))

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.

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

	31 December 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Financial assets held for trading *(Note 11)*	50,694,431	-	-	50,694,431
Available for sale financial assets *(Note 11)* (*)	304,297,340	1,312,038	-	305,609,378
Subsidiaries *(Note 9)* (**)	329,532,621	-	-	329,532,621
Total financial assets	**684,524,392**	**1,312,038**	**-**	**685,836,430**

(*) As at 31 December 2012, securities that are not publicly traded amounting to TL 4,517,033 have been measured at cost.
(**) As at 31 December 2012, subsidiaries that are not publicly traded amounting to TL 746,207 have been measured at cost.

	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.

(Currency: Turkish Lira (TL))

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 2012 and 2011.

	Change in index	31 December 2012	31 December 2011
Market price of equity	10%	42,977,535	26,874,067

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 2012 and 2011.

	Change in index	31 December 2012	31 December 2011
Market price of equity	10%	265,396	2,152,516

Gain and losses from financial assets

Gains and losses recognized in the statement of income, net:	**31 December 2012**	**31 December 2011**
Gains transferred from the statement of equity to the statement of income on disposal of available for sale financial assets (*Note 15*)	(677,095)	22,041,441
Interest income from bank deposits	57,108,964	40,845,891
Interest income from debt securities classified as available-for-sale financial assets	23,692,565	12,946,344
Income from equity shares	21,691,254	460,464
Foreign exchange gains	8,333,438	26,162,503
Interest income from debt securities classified as held for trading financial assets	5,128,233	1,511,834
Income from investment funds	5,003,424	(3,719,271)
Interest income from repos	648,944	355,202
Income from derivative transactions	333,499	18,351,708
Income from subsidiaries	-	5,733,312
Interest income from participates	-	5,407,979
Other	-	14,520
Investment income	**121,263,226**	**130,111,927**
Foreign exchange losses	(14,645,711)	(5,258,045)
Loss from disposal of financial assets	(5,103,243)	(6,485,612)
Investment management expenses (including interest)	(390,732)	(678,809)
Loss from derivative transactions	-	(26,555,378)
Investment expenses	**(20,139,686)**	**(38,977,844)**
Investment income, net	**101,123,540**	**91,134,083**

Gains and losses recognized in the statement of equity, net:	**31 December 2012**	**31 December 2011**
Fair value changes in available for sale financial assets *(Note 15)*	134,341,612	(184,703,909)
Gains transferred from the statement of equity to the statement of income on disposal of available for sale financial assets (*Note 15*)	677,095	(22,041,441)
Total	**135,018,707**	**(206,745,350)**

(Currency: Turkish Lira (TL))

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 271,629,749 as at 31 December 2012. As at 31 December 2012 and 2011, the capital amount of the Company presented in the unconsolidated financial statements are TL 658,397,986 and TL 447,269,521, respectively and capital surplus of the Company is amounting to TL 118,481,480 according to the communiqué.

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.

As at 31 December 2012, 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 2012 is presented below:

	1 January 2012	Additions	Foreign currency translation effect (*)	Disposals	31 December 2012
Cost:					
Investment properties *(Note 7)*	41,342,839	-	-	-	41,342,839
Owner occupied properties	31,392,945	-	-	-	31,392,945
Furniture and fixtures	3,356,360	421,429	(15,200)	(259,345)	3,503,244
Motor vehicles	968,401	407,024	(9,016)	(151,195)	1,215,214
	77,060,545	**828,453**	**(24,216)**	**(410,540)**	**77,454,242**
Accumulated depreciation:					
Investment properties *(Note 7)*	17,058,132	826,855	-	-	17,884,987
Owner occupied properties	11,310,062	627,858	-	-	11,937,920
Furniture and fixtures	2,067,632	363,742	(12,728)	(255,679)	2,162,967
Motor vehicles	499,905	223,086	(7,239)	(120,956)	594,796
	30,935,731	**2,041,541**	**(19,967)**	**(376,635)**	**32,580,670**
Carrying amounts	**46,124,814**				**44,873,572**

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

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.

(Currency: Turkish Lira (TL))

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

There is not any revaluation on tangible assets.

As at 31 December 2012 and 2011, carrying amount and fair value of the Company's operating center building located in Nişantaşı amounting to TL 19,455,025 and TL 20,082,883; respectively. As at 31 December 2012, fair value of building is amounting to TL 65,661,358 according to expert report.

7 Investment properties

As at 31 December 2012, inflation adjusted cost and carrying amounts of the Company's investment properties are amounting to TL 41,342,839 (31 December 2011: TL 41,342,839) and TL 23,457,852 (31 December 2011: TL 24,284,707), respectively.

As at 31 December 2012 and 2011, details of investment properties and the fair values are as follows:

	31 December 2012 Carrying amount	31 December 2011 Carrying amount	Date of expertise report	Value of expertise report
Villa Office Block	741,137	778,235	31 December 2012	16,203,834
Suadiye Fitness Center	4,004,665	4,180,076	31 December 2012	11,462,118
Tunaman Garage	1,759,737	1,826,992	31 December 2012	47,595,420
Operating Center Rental Offices	16,952,313	17,499,404	31 December 2012	76,090,994
Carrying amounts	**23,457,852**	**24,284,707**		**151,352,366**

For the year ended 31 December 2012, the Company has rental income from investment properties amounting to TL 9,694,494 (31 December 2011: TL 8,495,691)

8 Intangible assets

Movement in intangible assets in the period from 1 January to 31 December 2012 is presented below:

	1 January 2012	Additions	Foreign currency translation effects (*)	Disposal	31 December 2012
Cost:					
Other intangible assets	2,046,157	137,397	(65,010)	(13,101)	2,105,443
	2,046,157	**137,397**	**(65,010)**	**(13,101)**	**2,105,443**
Accumulated amortization:					
Other intangible assets	1,329,357	110,963	(64,100)	(13,101)	1,363,119
	1,329,357	**110,963**	**(64,100)**	**(13,101)**	**1,363,119**
Carrying amounts	**716,800**				**742,324**

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

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.

(Currency: Turkish Lira (TL))

9 Investments in associates

	31 December 2012		31 December 2011	
	Carrying value	Participation rate %	Carrying value	Participation rate %
Anadolu Sigorta	329,532,621	57.31	226,374,583	57.31
Miltaş Turizm İnşaat Ticaret Anonim Şirketi	746,207	77.00	746,207	77.00
Subsidiaries, net	**330,278,828**		**227,120,790**	
Financial asset total	**330,278,828**		**227,120,790**	

Name	Total assets	Shareholders' equity	Retained earnings	Profit for the year	Audited	Period
Subsidiaries:						
Miltaş Turizm Inşaat Ticaret AŞ	3,900,883	3,624,103	1,896	121,481	Not audited	31 December 2012
Anadolu Sigorta (*)	2,324,573,787	607,341,766	4,848,165	(44,663,387)	Not audited	30 September 2012

(*) As at 30 September 2012, consolidated financial information of Anadolu Sigorta has been presented.

10 Reinsurance asset and liabilities

As at 31 December 2012 and 2011, outstanding reinsurance assets and liabilities of the Company, as Reinsurance company in accordance with existing reinsurance contracts are as follows:

Reinsurance assets	31 December 2012	31 December 2011
Cash deposited to reinsurance companies	19,579,269	72,191,362
Provision for outstanding claims, ceded *(Note 4.2)*, *(Note 17)*	30,957,945	39,326,332
Receivables from reinsurance companies *(Note 12)*	24,928,259	9,738,351
Reserve for unearned premiums, ceded *(Note 17)*	6,304,078	10,425,185
Total	**81,769,551**	**131,681,230**

There is no impairment losses recognized for reinsurance assets.

Reinsurance liabilities	31 December 2012	31 December 2011
Deferred commission income *(Note 19)*	934,576	819,526
Total	**934,576**	**819,526**

(Currency: Turkish Lira (TL))

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

	31 December 2012	31 December 2011
Premiums ceded during the period *(Note 17)*	(103,520,733)	(85,584,077)
Reserve for unearned premiums, ceded at the beginning of the period *(Note 17)*	(10,425,185)	(3,434,329)
Reserve for unearned premiums, ceded at the end of the period *(Note 17)*	6,304,078	10,425,185
Premiums earned, ceded *(Note 17)*	**(107,641,840)**	**(78,593,221)**
Claims paid, ceded during the period *(Note 17)*	28,938,420	16,768,837
Provision for outstanding claims, ceded at the beginning of the period *(Note 17)*	(39,326,332)	(33,260,864)
Provision for outstanding claims, ceded at the end of the period *(Note 17)*	30,957,945	39,326,332
Claims incurred, ceded *(Note 17)*	**20,570,033**	**22,834,305**
Commission income accrued from reinsurers during the period *(Note 32)*	2,361,093	2,158,623
Deferred commission income at the beginning of the period *(Note 19)*	819,526	718,698
Deferred commission income at the end of the period *(Note 19)*	(934,576)	(819,526)
Commission income earned from reinsurers *(Note 32)*	**2,246,043**	**2,057,795**
Changes in provision for outstanding claims, reinsurers' share *(Note 17)*	**(1,823,617)**	**1,731,027**
Total, net	**(86,649,381)**	**(51,970,094)**

11 Financial assets

As at 31 December 2012 and 2011, the Company's financial assets are detailed as follows:

	31 December 2012	31 December 2011
Financial assets held for trading	50,694,431	85,950,860
Available for sale financial assets	310,126,411	220,587,319
Total	**360,820,842**	**306,538,179**

As at 31 December 2012 and 2011, the Company's financial assets held for trading are detailed as follows:

	31 December 2012			
	Face value	**Cost**	**Fair value**	**Carrying value**
Debt instruments:				
Private sector bonds - TL	18,380,000	18,399,952	18,959,449	18,959,449
Eurobonds issued by Private sector	2,300,000	3,395,963	4,257,009	4,257,009
		21,795,915	**23,216,458**	**23,216,458**
Non-fixed income financial assets:				
Equity shares		3,218,757	2,653,962	2,653,962
Investment funds – TL		13,000,000	13,869,901	13,869,901
Investment funds – FC		7,743,600	10,954,110	10,954,110
		23,962,357	**27,477,973**	**27,477,973**
Total financial assets held for trading		**45,758,272**	**50,694,431**	**50,694,431**

(Currency: Turkish Lira (TL))

	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 – TL		13,599,282	13,805,848	13,805,848
Investment funds – FC		7,743,600	7,273,031	7,273,031
		48,135,649	**42,604,038**	**42,604,038**
Total financial assets held for trading		**88,088,027**	**85,950,860**	**85,950,860**

As at 31 December 2012 and 2011, the Company's available for sale financial assets are as follows:

	31 December 2012			
	Face value	Cost	Fair value	Carrying value
Debt instruments:				
Government bonds – TL	165,696,582	172,742,154	184,902,143	184,902,143
Private sector bonds – TL	20,218,073	20,048,334	20,464,504	20,464,504
		192,790,488	**205,366,647**	**205,366,647**
Non-fixed income financial assets:				
Equity shares		71,450,070	104,759,764	104,759,764
		71,450,070	**104,759,764**	**104,759,764**
Total available-for-sale financial assets		**264,240,558**	**310,126,411**	**310,126,411**

	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**

All debt instruments presented above are traded in the capital markets. As at 31 December 2012, equity shares classified as available for sale financial assets with a carrying amount of TL 4,517,033 are not publicly traded (31 December 2011: TL 4,467,217).

(Currency: Turkish Lira (TL))

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
2012	111,001,156	(1,260,700)
2011	(166,766,456)	(112,261,856)
2010	16,882,376	54,504,600

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

	31 December 2012			
	Face value	Cost	Fair value	Carrying value
Available for sale financial assets - Private sector bonds	9,470,000	9,470,000	9,543,794	9,543,794
Financial assets held for trading – Investment funds		20,743,600	24,824,011	24,824,011
Available for sale financial assets – Equity shares		35,068,846	67,292,597	67,292,597
Total		**65,282,446**	**101,660,402**	**101,660,402**

	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**

(Currency: Turkish Lira (TL))

As at 31 December 2012 and 2011, the movement of the financial assets is presented below:

	31 December 2012		
	Trading	Available-for-Sale	Total
Balance at the beginning of the period	**85,950,860**	**220,587,319**	**306,538,179**
Unrealized exchange differences on financial assets	(628,171)	-	(628,171)
Acquisitions during the period	21,309,949	499,667,216	520,977,165
Disposals (sale and redemption)	(65,185,987)	(460,929,345)	(526,115,332)
Change in the fair value of financial assets	9,247,780	6,829,980	16,077,760
Change in amortized cost of the financial assets	-	37,873,389	37,873,389
Bonus shares acquired	-	6,097,852	6,097,852
Balance at the end of the period	**50,694,431**	**310,126,411**	**360,820,842**

	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 end of the period	**85,950,860**	**220,587,319**	**306,538,179**

12 Loans and receivables

	31 December 2012	31 December 2011
Receivables from main operations *(Note 4.2)*	185,066,883	243,546,328
Prepaid taxes and funds *(Note 19)*	9,551,587	7,788,397
Other receivables *(Note 4.2)*	110,476	209,412
Other current asset	1,952	1,952
Total	**194,730,898**	**251,546,089**
Short-term receivables	194,730,898	251,546,089
Medium and long-term receivables	-	-
Total	**194,730,898**	**251,546,089**

(Currency: Turkish Lira (TL))

As at 31 December 2012 and 2011, receivables from main operations are detailed as follows:

	31 December 2012	31 December 2011
Receivables from insurance companies	46,710,143	66,883,310
Receivables from agencies, brokers and intermediaries	43,088,018	57,328,645
Receivables from reinsurance companies *(Note 10)*	24,928,259	9,738,351
Total receivables from insurance operations, net	**114,726,420**	**133,950,306**
Cash deposited to insurance and reinsurance companies	70,340,463	109,596,022
Doubtful receivables from main operations	9,375,964	9,836,912
Provision for doubtful receivables from main operations	(9,375,964)	(9,836,912)
Receivables from main operations	**185,066,883**	**243,546,328**

As at 31 December 2012 and 2011, mortgages and collaterals obtained for receivables are disclosed as follows:

	31 December 2012	31 December 2011
Letters of guarantees	3,159,911	2,805,059
Mortgage notes	2,041	2,041
Other guarantees	-	2,000
Total	**3,161,952**	**2,809,100**

Provisions for overdue receivables and receivables not due yet

a) Receivables under legal or administrative follow up (due): TL 9,375,964 for main operations (31 December 2011: TL 9,836,912) and TL 232,377 (31 December 2011: TL 28,088) for other receivables.

b) Provision for premium receivables (due): None (31 December 2011: 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 2012 and 2011, the Company does not have derivative financial instruments.

14 Cash and cash equivalents

As at 31 December 2012 and 2011, cash and cash equivalents are as follows:

	31 December 2012		31 December 2011	
	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	24,735	14,067	14,067	30,839
Bank deposits	677,202,128	582,272,771	582,272,771	382,285,859
Cash and cash equivalents in the balance sheet	**677,226,863**	**582,286,838**	**582,286,838**	**382,316,698**
Bank deposits – blocked	(500)	(500)	(500)	(23,000)
Time deposits with maturities longer than 3 months	(316,005,626)	(57,151,184)	(57,151,184)	-
Interest accruals on bank deposits	(2,357,988)	(2,160,164)	(2,160,164)	(2,033,953)
Cash and cash equivalents presented in the statement of cash flows	**358,862,749**	**522,974,990**	**522,974,990**	**380,259,745**

As at 31 December 2012 and 2011, bank deposits are further analyzed as follows:

	31 December 2012	31 December 2011
Foreign currency denominated bank deposits		
- time deposits	113,609,701	82,278,894
- demand deposits	4,930,531	6,072,000
Bank deposits in Turkish Lira		
- time deposits	558,553,759	493,915,905
- demand deposits	108,137	5,972
Cash at banks	**677,202,128**	**582,272,771**

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 2012 and 2011, the shareholding structure of the Company is presented below:

	31 December 2012		31 December 2011	
Name	Shareholding amount (TL)	Shareholding rate (%)	Shareholding amount (TL)	Shareholding rate (%)
Türkiye İş Bankası AŞ	471,323,817	76.64	471,323,817	76.64
Millî Reasürans TAŞ Mensupları Yardımlaşma Sandığı Vakfı	64,840,594	10.54	64,833,521	10.54
Groupama Emeklilik AŞ	36,163,765	5.88	36,163,765	5.88
T.C. Başbakanlık Hazine Müsteşarlığı	20,724,061	3.37	20,724,061	3.37
T.C. Ziraat Bankası AŞ	15,310,652	2.49	15,310,652	2.49
Other	6,637,111	1.08	6,644,184	1.08
Paid in Capital	**615,000,000**	**100.00**	**615,000,000**	**100.00**

As at 31 December 2012, the issued share capital of the Company is TL 615,000,000 (31 December 2011: TL 615,000,000) and the share capital of the Company consists of 61,500,000,000 (31 December 2011: 61,500,000,000 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 2012	31 December 2011
Legal reserves at the beginning of the period	**49,622,694**	**42,856,487**
Transfer from 2011/2010 profit	-	6,766,207
Legal reserves at the end of the period	**49,622,694**	**49,622,694**

As at 31 December 2012 and 2011, "Other Reserves and Retained Earnings" includes only extraordinary reserves.

Extraordinary Reserves

The movement of extraordinary reserves is as follows:

	31 December 2012	31 December 2011
Extraordinary reserves at the beginning of the period	**5,512,899**	**4,124,316**
Transfer from profit	-	1,388,583
Extraordinary reserves at the end of the period	**5,512,899**	**5,512,899**

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 2012, total amount of statutory reserves allocated as mentioned method is TL 39,500,000.

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 2012, foreign currency translation loss amounting to TL 3,588,736 (31 December 2011: TL 5,367,227 loss) stems from Singapore Branch whose functional currency is US Dollars.

(Currency: Turkish Lira (TL))

Valuation of financial assets

As at 31 December 2012 and 2011, movement of fair value reserves of available for sale financial assets and associates are presented below:

	31 December 2012	31 December 2011
Fair value reserves at the beginning of the period	**(112,261,856)**	**54,504,600**
Change in the fair value during the period *(Note 4.2)*	134,341,612	(184,703,909)
Deferred tax effect	(23,882,132)	35,570,606
Net gains transferred to the statement of income *(Note 4.2)*	677,095	(22,041,441)
Deferred tax effect	(135,419)	4,408,288
Fair value reserves at the end of the period	**(1,260,700)**	**(112,261,856)**

16 Other reserves and equity component of DPF

As at 31 December 2012 and 2011, other reserves are explained in detail in Note 15 – *Equity* above.

As at 31 December 2012 and 2011, 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 2012 and 2011, technical reserves of the Company are as follows:

	31 December 2012	31 December 2011
Reserve for unearned premiums, gross	393,337,225	413,348,322
Reserve for unearned premiums, ceded *(Note 10)*	(6,304,078)	(10,425,185)
Reserves for unearned premiums, net	**387,033,147**	**402,923,137**
Provision for outstanding claims, gross	649,962,970	631,050,815
Provision for outstanding claims, ceded *(Note 10)*	(30,957,945)	(39,326,332)
Provision for outstanding claims, net	**619,005,025**	**591,724,483**
Reserve for unexpired risks, gross	1,576,374	70,733,676
Reserve for unexpired risks, ceded *(Note 10)*	(255)	(1,823,872)
Reserve for unexpired risks, net	**1,576,119**	**68,909,804**
Equalization provision, net	**18,263,349**	**14,370,512**
Life mathematical provisions	**1,020,079**	**1,377,701**
Total technical provisions, net	**1,026,897,719**	**1,079,305,637**
Short-term	1,008,634,370	1,064,935,125
Medium and long-term	18,263,349	14,370,512
Total technical provisions, net	**1,026,897,719**	**1,079,305,637**

(Currency: Turkish Lira (TL))

As at 31 December 2012 and 2011, movements of the insurance liabilities and related reinsurance assets are presented below:

	31 December 2012		
Reserve for unearned premiums	**Gross**	**Ceded**	**Net**
Reserve for unearned premiums at the beginning of the period	413,348,322	(10,425,185)	402,923,137
Premiums written during the period	1,030,780,980	(103,520,733)	927,260,247
Premiums earned during the period	(1,050,792,077)	107,641,840	(943,150,237)
Reserve for unearned premiums at the end of the period	**393,337,225**	**(6,304,078)**	**387,033,147**

	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 2012		
Provision for outstanding claims	**Gross**	**Ceded**	**Net**
Provision for outstanding claims at the beginning of the period	631,050,815	(39,326,332)	591,724,483
Claims reported during the period and changes in the estimations of provisions for outstanding claims provided at the beginning of the period	740,053,146	(20,570,033)	719,483,113
Claims paid during the period	(721,140,991)	28,938,420	(692,202,571)
Provision for outstanding claims at the end of the period	**649,962,970**	**(30,957,945)**	**619,005,025**

	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**

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.

(Currency: Turkish Lira (TL))

Profit share distribution rate of life insurances

None.

Deferred commission expenses

The Company capitalizes commissions paid to the intermediaries related to policy production under short-term and long-term prepaid expenses. As at 31 December 2012, short-term deferred expenses amounting to TL 102,260,739 (31 December 2011: TL 94,680,589) totally consist of deferred commission expenses.

As at 31 December 2012 and 2011, the movement of deferred commission expenses is presented below:

	31 December 2012	31 December 2011
Deferred commission expenses at the beginning of the period	94,680,589	79,695,531
Commissions accrued during the period *(Note 32)*	234,177,910	212,783,495
Commissions expensed during the period *(Note 32)*	(226,597,760)	(197,798,437)
Deferred commission expenses at the end of the period	**102,260,739**	**94,680,589**

18 Investment contract liabilities

None.

19 Trade and other payables and deferred income

	31 December 2012	31 December 2011
Payables arising from reinsurance operations	36,566,230	33,104,089
Short/long term deferred income and expense accruals	4,201,902	3,667,622
Taxes and other liabilities and similar obligations	897,529	1,056,498
Other payables	412,535	605,002
Due to related parties *(Note 45)*	121,029	124,614
Total	**42,199,225**	**38,557,825**
Short-term liabilities	42,182,558	38,491,158
Long-term liabilities	16,667	66,667
Total	**42,199,225**	**38,557,825**

As at 31 December 2012 and 2011, 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 934,576 (31 December 2011: TL 819,526).

TL 3,123,239 (31 December 2011: TL 2,661,612) of short/long term deferred income and expense accruals is composed by mainly personnel premium and profit distribution accruals.

Corporate tax liabilities and prepaid taxes are disclosed below:

	31 December 2012	31 December 2011
Taxes paid during the year	(9,551,587)	(8,009,296)
Corporate tax liabilities	-	220,899
Prepaid assets, net *(Note 12)*	**(9,551,587)**	**(7,788,397)**

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 2011: None).

21 Deferred Taxes

As at 31 December 2012 and 2011, deferred tax assets and liabilities are attributable to the following:

	31 December 2012 Deferred tax assets/(liabilities)	31 December 2011 Deferred tax assets/(liabilities)
Deferred tax effect of current period tax losses	25,185,010	20,405,251
Valuation differences in subsidiaries	8,116,381	29,779,497
Provision for the pension fund deficits	6,219,079	5,034,049
Provisions for employee termination benefits	1,064,643	917,726
Reserve for unexpired risks	315,224	13,781,961
Provision for doubtful receivables	231,673	245,487
Equalization provision	175,666	88,672
Additional provisions for outstanding claims through actuarial chain ladder method	-	7,961,132
Discount of receivables and payables	(115,710)	33,855
Difference in depreciation methods on tangible and intangible assets between tax regulations and the Reporting Standards	(209,524)	(204,723)
Valuation differences in financial assets	(907,645)	1,581,385
Income accruals	(3,085,318)	(1,432,798)
Deferred tax assets, net	**36,989,479**	**78,191,494**

As at 31 December 2012, the Company has deductible tax losses presented below with maturities and amounts in detail. 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.

	31 December 2012
31 December 2016	123,752,455
31 December 2017	2,172,595
Deductible tax losses	**125,925,050**

Movement of deferred tax assets as at 31 December 2012 and 2011 are given below:

Movement of deferred tax (assets)/liabilities:	31 December 2012	31 December 2011
Opening balance at 1 January	**78,191,494**	**9,337,784**
Recognised in profit or loss	(17,319,883)	33,283,104
Recognised in equity	(23,882,132)	35,570,606
Closing balance at 31 December	**36,989,479**	**78,191,494**

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. Supreme Court asserted possible losses on acquired rights of employees of pension fund as reason for cancellation decision.

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. On 8 March 2012, "Amendments to the Social Security and General Health Insurance Act Including Certain Laws and Decrees" numbered 28227, was published on Official Gazette and 4th article of this act changed "two years" phrase as "four years" which takes part on second sentence of first clause of 20th article of the code numbered 5510. In accordance with the Act, as of the transfer date, present value of the liabilities will be determined by considering the income and expense of the pension fund.

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

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

a) technical deficit rate of 9.8% shall be used in the actuarial calculation of the value in cash, and

b) 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 31,095,395 (31 December 2011: TL 25,170,247) is accounted as "Provision for pension fund deficits" in the accompanying unconsolidated financial statements.

(Currency: Turkish Lira (TL))

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 2012 and 2011, technical deficit from pension funds comprised the following:

	31 December 2012	31 December 2011
Net present value of total liabilities other than health	(68,578,765)	(62,146,602)
Net present value of insurance premiums	13,312,832	12,066,671
Net present value of total liabilities other than health	**(55,265,933)**	**(50,079,931)**
Net present value of health liabilities	(10,967,935)	(9,684,833)
Net present value of health premiums	7,295,668	6,622,616
Net present value of health liabilities	**(3,672,267)**	**(3,062,217)**
Pension fund assets	**27,842,805**	**27,971,901**
Amount of actuarial and technical deficit	**(31,095,395)**	**(25,170,247)**

Plan assets are comprised of the following items:

	31 December 2012	31 December 2011
Properties	17,680,000	17,000,000
Cash and cash equivalents	5,469,413	6,412,671
Associates	4,556,404	4,192,939
Securities portfolio	4,786	4,786
Other	132,202	361,505
Total plan assets	**27,842,805**	**27,971,901**

(Currency: Turkish Lira (TL))

23 Provision for other liabilities and charges

As at 31 December 2012 and 2011; the provisions for other risks are disclosed as follows:

	31 December 2012	31 December 2011
Provision for pension fund deficits *(Note 22)*	**31,095,395**	**25,170,247**
Provision for employee termination benefits	**5,323,213**	**4,588,628**
Total provision for other risks	**36,418,608**	**29,758,875**

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

	31 December 2012	31 December 2011
Provision at the beginning of the period	4,588,628	4,337,432
Interest cost *(Note 47)*	338,556	123,073
Service cost *(Note 47)*	338,541	271,395
Payments during the period *(Note 47)*	(427,805)	(776,045)
Actuarial differences *(Note 47)*	485,293	632,773
Provision at the end of the period	**5,323,213**	**4,588,628**

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”.

(Currency: Turkish Lira (TL))

29 Insurance rights and claims

	31 December 2012		31 December 2011	
	Life	**Non-Life**	**Life**	**Non-Life**
Claims paid, net off reinsurers' share	(6,018,305)	(686,184,266)	(6,823,372)	(656,622,779)
Changes in provision for outstanding claims, net off reinsurers' share	(326,893)	(26,953,649)	146,367	(199,219,649)
Changes in reserve for unearned premium, net off reinsurers' share	344,181	15,545,809	(452,266)	(65,696,708)
Changes in reserve for unexpired risks, net off reinsurers' share	-	67,333,685	-	(58,375,906)
Change in equalization provision	(252,279)	(3,640,558)	(197,964)	1,669,500
Change in life mathematical provisions, net off reinsurers' share	357,622	-	(184,915)	-
Total	**(5,895,674)**	**(633,898,979)**	**(7,512,150)**	**(978,245,542)**

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 2012 and 2011, the operating expenses are disclosed as follows:

	31 December 2012		31 December 2011	
	Life	**Non life**	**Life**	**Non life**
Commission expenses *(Note 17)*	7,330,952	219,266,808	7,376,332	190,422,105
Commissions to the intermediaries accrued during the period (Note 17)	*7,235,972*	*226,941,938*	*7,495,192*	*205,288,303*
Changes in deferred commission expenses (Note 17)	*94,980*	*(7,675,130)*	*(118,860)*	*(14,866,198)*
Employee benefit expenses *(Note 33)*	827,918	28,347,207	722,235	27,099,394
Foreign exchange losses	87,332	17,272,937	121,180	13,427,668
Administration expenses	30,710	6,715,863	28,382	6,993,790
Commission income from reinsurers *(Note 10)*	(93,781)	(2,152,262)	(108,567)	(1,949,228)
Commission income from reinsurers accrued during the period (Note 10)	*(89,453)*	*(2,271,640)*	*(124,076)*	*(2,034,547)*
Change in deferred commission income (Note 10)	*(4,328)*	*119,378*	*15,509*	*85,319*
Outsourced benefits and services	-	642,733	-	348,399
Other	40	6,887,788	27	6,296,598
Total	**8,183,171**	**276,981,074**	**8,139,589**	**242,638,726**

(Currency: Turkish Lira (TL))

33 Employee benefit expenses

As at and for the years ended 31 December 2012 and 2011, employee benefit expenses are disclosed as follows:

	31 December 2012		31 December 2011	
	Life	**Non life**	**Life**	**Non life**
Wages and salaries	659,698	20,311,410	584,368	20,102,315
Employer's share in social security premiums	103,623	4,593,417	98,167	3,789,056
Pension fund benefits	64,597	3,442,380	39,700	3,208,023
Total *(Note 32)*	**827,918**	**28,347,207**	**722,235**	**27,099,394**

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 2012	31 December 2011
Corporate tax expense:		
Corporate tax provision	-	(220,899)
Deferred taxes:		
Origination and reversal of temporary differences	(17,319,883)	33,283,104
Total income tax expense/(income)	**(17,319,883)**	**33,062,205**

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 2012 and 2011 is as follows:

	31 December 2012		31 December 2011	
Profit/(loss) before taxes	**115,668,701**	**Tax rate (%)**	**(177,799,194)**	**Tax rate (%)**
Taxes on income per statutory tax rate	23,133,740	20.00	(35,559,839)	20.00
Tax exempt income	(1,704,485)	(1.47)	2,147,478	(1.21)
Prior period foreign branch financial losses recognized in current year deferred tax	(4,345,240)	(3.76)	-	-
Non-deductible expenses	235,868	0.20	350,156	(0.20)
Total tax expense recognized in profit or loss	**17,319,883**	**14.97**	**(33,062,205)**	**18.60**

(Currency: Turkish Lira (TL))

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 2012	31 December 2011
Net profit/(loss) for the period	98,348,818	(144,736,989)
Weighted average number of shares	61,500,000,000	61,500,000,000
Earnings/(loss) per share (TL)	0.00160	(0.00235)

38 Dividends per share

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

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

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

As a result of the Ordinary General Meeting of the Company held on 27 March 2012, since the Company has loss amounting to TL 144,736,989 for the year ended 31 December 2011, it has been decided that the profit distribution is not made.

39 Cash generated from operations

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

(Currency: Turkish Lira (TL))

40 Convertible bonds

None.

41 Redeemable preference shares

None.

42 Risks

As at 31 December 2012, total amount of ongoing suits filed against to the Company is TL 150,000 (31 December 2011: 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 2012	31 December 2011
Within one year	306,429	158,832
Between two to five years	306,429	-
More than 5 years	-	-
Total of minimum rent payments	**612,858**	**158,832**

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 2012 and 2011 are as follows:

	31 December 2012	31 December 2011
Türkiye İş Bankası A.Ş.	261,860,771	383,560,710
T.C. Ziraat Bankası A.Ş.	74,547,309	3,883,402
Other	713	158
Banks	**336,408,793**	**387,444,270**
Equity shares of the related parties	67,292,597	40,564,575
Investment funds founded by İşbank GmbH *(Note 11)*	10,954,110	7,273,031
Bonds issued by İş Bankası A.Ş. *(Note 11)*	9,019,452	18,695,054
Investment funds founded by İş Portföy Yönetimi A.Ş. *(Note 11)*	8,803,200	7,919,200
Investment funds founded by İş Yatırım Menkul Değerler A.Ş. *(Note 11)*	5,066,701	5,386,761
Bonds issued by İş Finansal Kiralama A.Ş. *(Note 11)*	524,342	1,837,800
Eurobonds issued by İş Bankası A.Ş. *(Note 11)*	-	9,393,568
Investment funds founded by İş Bankası A.Ş. *(Note 11)*	-	499,887
Financial assets	**101,660,402**	**91,569,876**
Allianz Sigorta A.Ş.	1,147,259	592,698
Axa Sigorta A.Ş.	233,841	8,536,885
Anadolu Hayat Emeklilik A.Ş.	123,852	161,582
İstanbul Umum Sigorta A.Ş.	76,182	71,363
Anadolu Sigorta	42,889	6,556,265
Ergo Sigorta A.Ş.	18,245	18,166
AvivaSa Emeklilik A.Ş.	-	4,507
Receivables from main operations	**1,642,268**	**15,941,466**
Due to shareholders	72,450	96,618
Due to other related parties	48,579	27,996
Due to related parties	**121,029**	**124,614**
Anadolu Sigorta	10,681,643	-
Ergo Sigorta A.Ş.	5,887,219	100,062
Güven Sigorta T.A.Ş.	457,086	414,322
Groupama Sigorta A.Ş.	441,295	153,603
Axa Sigorta A.Ş.	49,762	53,154
İstanbul Umum Sigorta A.Ş.	39,554	41,368
Allianz Sigorta A.Ş.	37,236	41,041
Anadolu Hayat Emeklilik A.Ş.	-	228
Payables from main operations	**17,593,795**	**803,778**

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 2012 and 2011 are as follows:

	31 December 2012	31 December 2011
Anadolu Sigorta	81,739,057	94,536,854
Axa Sigorta A.Ş.	36,830,622	26,000,637
Ergo Sigorta A.Ş.	32,774,685	41,191,693
Allianz Sigorta A.Ş.	25,933,759	23,152,192
Groupama Sigorta A.Ş.	7,800,594	7,254,713
Anadolu Hayat Emeklilik A.Ş.	1,040,773	778,715
AvivaSa Emeklilik A.Ş.	614,282	512,540
Güven Sigorta T.A.Ş.	87	139,156
Premiums received	**186,733,859**	**193,566,500**
Anadolu Sigorta	77,047	325,022
Ergo Sigorta A.Ş.	50,790	58,915
Groupama Sigorta A.Ş.	17,606	24,913
Axa Sigorta A.Ş.	10,434	12,566
Güven Sigorta T.A.Ş.	3,332	4,034
Allianz Sigorta A.Ş.	57	33
İstanbul Umum Sigorta A.Ş.	4	12
Premiums ceded	**159,270**	**425,495**
Anadolu Sigorta	32,636	-
Ergo Sigorta A.Ş.	16,763	-
Groupama Sigorta A.Ş.	15,728	-
Axa Sigorta A.Ş.	7,265	-
Güven Sigorta T.A.Ş.	2,764	-
Allianz Sigorta A.Ş.	4	2
İstanbul Umum Sigorta A.Ş.	-	1
Commissions received	**75,160**	**3**
Anadolu Sigorta	19,355,996	17,824,177
Ergo Sigorta A.Ş.	8,165,773	9,107,794
Axa Sigorta A.Ş.	6,811,293	2,482,614
Allianz Sigorta A.Ş.	6,401,483	5,876,593
Groupama Sigorta A.Ş.	1,486,282	1,131,358
AvivaSa Emeklilik A.Ş.	375,709	305,743
Anadolu Hayat Emeklilik A.Ş.	231,115	175,706
Güven Sigorta T.A.Ş.	67,137	78,070
Commissions given	**42,894,788**	**36,982,055**

(Currency: Turkish Lira (TL))

	31 December 2012	31 December 2011
Anadolu Sigorta	64,186,324	55,652,261
Axa Sigorta A.Ş.	40,265,158	4,747,237
Ergo Sigorta A.Ş.	32,858,939	31,597,360
Allianz Sigorta A.Ş.	14,010,468	16,810,769
Groupama Sigorta A.Ş.	6,244,647	7,901,921
Güven Sigorta T.A.Ş.	1,173,115	1,560,650
Anadolu Hayat Emeklilik A.Ş.	208,621	59,096
AvivaSa Emeklilik A.Ş.	28,695	196,477
Claims paid	**158,975,967**	**118,525,771**
Anadolu Sigorta	379,280	462,474
Groupama Sigorta A.Ş.	197,390	226,304
Ergo Sigorta A.Ş.	129,934	182,117
Axa Sigorta A.Ş.	110,320	145,983
Güven Sigorta T.A.Ş.	59,022	75,643
İstanbul Umum Sigorta A.Ş.	11,393	20,022
Allianz Sigorta A.Ş.	8,849	14,157
Reinsurance's share of claims paid	**896,188**	**1,126,700**
Allianz Sigorta A.Ş.	154,583	558,914
Axa Sigorta A.Ş.	132,307	916,441
Ergo Sigorta A.Ş.	88,524	453,179
Groupama Sigorta A.Ş.	6,920	202,070
Anadolu Hayat Emeklilik A.Ş.	784	1,345
AvivaSa Emeklilik A.Ş.	313	1,417
Güven Sigorta T.A.Ş.	-	1,420
Anadolu Sigorta	-	790,026
Other income	**383,431**	**2,924,812**
Axa Sigorta A.Ş.	752,758	86,106
Anadolu Sigorta	721,041	162,694
Ergo Sigorta A.Ş.	397,072	39,732
Allianz Sigorta A.Ş.	323,688	173,064
Groupama Sigorta A.Ş.	79,396	55,543
Anadolu Hayat Emeklilik A.Ş.	3,958	200
AvivaSa Emeklilik A.Ş.	79	39
Güven Sigorta A.Ş.	-	42,848
Other expenses	**2,277,992**	**560,226**

46 Subsequent events

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

(Currency: Turkish Lira (TL))

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 2012 and 2011, details of rediscount and provision expenses are as follows:

Provision Expenses	31 December 2012	31 December 2011
Provision for pension fund deficits	(5,925,148)	(4,396,992)
Provision expenses for doubtful receivables (*)	256,659	(1,473,838)
Provision for employee termination benefits *(Note 23)*	(734,585)	(251,196)
Other	(1)	379
Provisions	**(6,403,075)**	**(6,121,647)**

(*) Provision income stems from foreign exchange translation effect on doubtful receivables from main operations amounting to TL 460,948 and provision expense on doubtful receivables from other receivables amounting to TL (204,289).

Rediscount Expenses	31 December 2012	31 December 2011
Rediscount income/(expense) from reinsurance receivables	(419,487)	416,323
Rediscount income/(expense) from reinsurance payables	272,434	(506,193)
Total of rediscounts	**(147,053)**	**(89,870)**

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

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