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

Millî Reasürans Türk Anonim Şirketi

31 December 2011
Consolidated Financial Statements
Together With
Independent Auditors' Report Thereon

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

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik Anonim Şirketi

24 April 2012

This report includes 2 pages of independent auditors' report and 92 pages of consolidated financial information together with their explanatory notes.

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
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Convenience Translation of the Independent Auditors' Report Originally Prepared and Issued in Turkish (See *Note 2.1.1*)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Milli Reasürans Türk Anonim Şirketi

Introduction

We have audited the accompanying consolidated balance sheet of Milli Reasürans Türk Anonim Şirketi (the "Company") and its subsidiary (collectively the "Group") as at 31 December 2011 and the related consolidated statements of income, consolidated statement of changes in equity and consolidated 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 consolidated 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 consolidated 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 consolidated financial statements give a true and fair view of the consolidated financial position of Milli Reasürans Türk Anonim Şirketi and its subsidiary as at 31 December 2011, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the accounting principles and standards (see *Note 2*) in force as per the insurance legislation.

Emphasis of matter

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

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

Istanbul, 24 April 2012

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik AŞ

Murat Alsan, Certified Public Accountant
Partner

Additional paragraph for convenience translation to English:

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

MİLLÎ REASÜRANS TÜRK ANONİM ŞİRKETİ

CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2011

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

Istanbul, 24 April 2012

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

Zeki Davut

(Currency: Turkish Lira (TL))

ASSETS			
I- Current Assets	**Note**	**Audited Current Period 31 December 2011**	**Audited Prior Period 31 December 2010**
A- Cash and Cash Equivalents	**14**	**1,493,918,555**	**992,361,647**
1- Cash	14	75,156	97,363
2- Cheques Received		--	--
3- Banks	14	1,273,591,713	869,200,967
4- Cheques Given and Payment Orders	14	(1,450,675)	(2,687,054)
5- Other Cash and Cash Equivalents	14	221,702,361	125,750,371
B- Financial Assets and Financial Investments with Risks on Policyholders	**11**	**634,221,435**	**935,380,143**
1- Available-for-Sale Financial Assets	11	376,998,930	383,304,121
2- Held to Maturity Investments	11	85,608,329	130,409,487
3- Financial Assets Held for Trading	11	177,411,788	427,464,147
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	11	(5,797,612)	(5,797,612)
C- Receivables from Main Operations	**12**	**790,518,246**	**656,260,707**
1- Receivables from Insurance Operations	12	511,613,696	419,357,295
2- Provision for Receivables from Insurance Operations	12	(4,649,888)	(3,229,103)
3- Receivables from Reinsurance Operations	12	170,938,567	130,619,462
4- Provision for Receivables from Reinsurance Operations		--	--
5- Cash Deposited to Insurance & Reinsurance Companies	12	112,615,871	109,513,053
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	82,454,972	72,569,506
10- Provision for Doubtful Receivables from Main Operations	4.2,12	(82,454,972)	(72,569,506)
D- Due from Related Parties	**12**	**90,230**	**82,070**
1- Due from Shareholders		--	--
2- Due from Associates		--	--
3- Due from Subsidiaries		--	--
4- Due from Joint Ventures		--	--
5- Due from Personnel	12	90,230	82,070
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**	**2,079,390**	**3,240,230**
1- Finance Lease Receivables		--	--
2- Unearned Finance Lease Interest Income		--	--
3- Deposits and Guarantees Given	12	74,132	1,611,118
4- Other Miscellaneous Receivables	12	2,005,258	1,629,112
5- Rediscount on Other Miscellaneous Receivables		--	--
6- Other Doubtful Receivables	12	28,088	16,621
7- Provision for Other Doubtful Receivables	12	(28,088)	(16,621)
F- Prepaid Expenses and Income Accruals		**254,251,990**	**204,408,534**
1- Prepaid Expenses	17	247,087,988	193,865,215
2- Accrued Interest and Rent Income		--	--
3- Income Accruals	4.2,12	7,164,002	9,759,059
4- Other Prepaid Expenses and Income Accruals	4.2,12	--	784,260
G- Other Current Assets		**17,578,209**	**10,286,843**
1- Stocks to be Used in the Following Months		541,247	346,541
2- Prepaid Taxes and Funds	12,19	15,727,306	9,033,843
3- Deferred Tax Assets		--	--
4- Job Advances	12	38,150	153,072
5- Advances Given to Personnel	12	10,857	7,111
6- Inventory Count Differences		--	--
7- Other Miscellaneous Current Assets		1,260,649	746,276
8- Provision for Other Current Assets		--	--
I- Total Current Assets		**3,192,658,055**	**2,802,020,174**

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

(Currency: Turkish Lira (TL))

ASSETS			
II- Non-Current Assets		**Audited**	**Audited**
A- Receivables from Main Operations		**--**	**--**
1- Receivables from Insurance Operations		--	--
2- Provision for Receivables from Insurance Operations		--	--
3- Receivables from Reinsurance Operations		--	--
4- Provision for Receivables from Reinsurance Operations		--	--
5- Cash Deposited for Insurance and Reinsurance Companies		--	--
6- Loans to the Policyholders		--	--
7- Provision for Loans to the Policyholders		--	--
8- Receivables from Individual Pension Business		--	--
9- Doubtful Receivables from Main Operations	4.2,12	9,833,504	8,374,541
10- Provision for Doubtful Receivables from Main Operations	4.2,12	(9,833,504)	(8,374,541)
B- Due from Related Parties		**--**	**--**
1- Due from Shareholders		--	--
2- Due from Associates		--	--
3- Due from Subsidiaries		--	--
4- Due from Joint Ventures		--	--
5- Due from Personnel		--	--
6- Due from Other Related Parties		--	--
7- Rediscount on Receivables from Related Parties		--	--
8- Doubtful Receivables from Related Parties		--	--
9- Provision for Doubtful Receivables from Related Parties		--	--
C- Other Receivables		**--**	**--**
1- Finance Lease Receivables		--	--
2- Unearned Finance Lease Interest Income		--	--
3- Deposits and Guarantees Given		--	--
4- Other Miscellaneous Receivables		--	--
5- Rediscount on Other Miscellaneous Receivables		--	--
6- Other Doubtful Receivables		--	--
7- Provision for Other Doubtful Receivables		--	--
D- Financial Assets	**9**	**91,747,098**	**91,903,391**
1- Investments in Equity Shares		--	--
2- Investments in Associates	9	91,000,891	91,157,184
3- Capital Commitments to Associates		--	--
4- Investments in Subsidiaries	9	746,207	746,207
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**	**64,451,777**	**68,051,115**
1- Investment Properties	6,7	48,325,615	48,325,615
2- Impairment for Investment Properties		--	--
3- Owner Occupied Property	6	37,745,132	37,812,594
4- Machinery and Equipments	6	25,657,096	24,381,873
5- Furniture and Fixtures	6	12,334,124	11,251,611
6- Motor Vehicles	6	2,309,072	2,050,561
7- Other Tangible Assets (Including Leasehold Improvements)	6	3,783,569	3,533,374
8- Tangible Assets Acquired Through Finance Leases	6	4,339,065	4,339,065
9- Accumulated Depreciation (-)	6	(70,041,896)	(63,643,578)
10- Advances Paid for Tangible Assets (Including Construction in Progress)		--	--
F- Intangible Assets	**8**	**36,847,001**	**26,827,732**
1- Rights	8	18,607,067	13,485,907
2- Goodwill	8	16,250,000	16,250,000
3- Pre-operating Expenses		--	--
4- Research and Development Costs		--	--
5- Other Intangible Assets		--	--
6- Accumulated Amortization	8	(12,346,494)	(8,600,061)
7- Advances Paid for Intangible Assets	8	14,336,428	5,691,886
G- Prepaid Expenses and Income Accruals	**17**	**574,409**	**121,537**
1- Prepaid Expenses	17	574,409	2,624
2- Income Accruals		--	--
3- Other Prepaid Expenses and Income Accruals		--	118,913
H- Other Non-Current Assets	**21**	**58,418,543**	**10,947,986**
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	58,418,543	10,947,986
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		**252,038,828**	**197,851,761**
TOTAL ASSETS		**3,444,696,883**	**2,999,871,935**

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

(Currency: Turkish Lira (TL))

LIABILITIES			
III- Short-Term Liabilities	**Note**	**Audited Current Period 31 December 2011**	**Audited Prior Period 31 December 2010**
A- Financial Liabilities		**--**	**--**
1- Borrowings from Financial Institutions		--	--
2- Finance Lease Payables		--	745
3- Deferred Leasing Costs		--	(745)
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**	**186,377,182**	**137,524,121**
1- Payables Arising from Insurance Operations		115,697,180	75,298,789
2- Payables Arising from Reinsurance Operations		32,224,043	34,688,733
3- Cash Deposited by Insurance and Reinsurance Companies		2,694,464	1,742,574
4- Payables Arising from Pension Operations		--	--
5- Payables Arising from Other Operations		35,761,495	25,794,025
6- Discount on Payables from Other Operations		--	--
C-Due to Related Parties	**19**	**140,108**	**131,380**
1- Due to Shareholders		112,112	73,646
2- Due to Associates		--	--
3- Due to Subsidiaries		--	--
4- Due to Joint Ventures		--	--
5- Due to Personnel		--	--
6- Due to Other Related Parties		27,996	57,734
D- Other Payables	**19**	**27,242,753**	**11,404,337**
1- Deposits and Guarantees Received		2,530,631	1,525,812
2- Other Miscellaneous Payables		24,838,949	9,878,525
3- Discount on Other Miscellaneous Payables		(126,827)	--
E-Insurance Technical Provisions	**17**	**2,262,896,936**	**1,636,811,200**
1- Reserve for Unearned Premiums - Net	17	1,210,885,376	926,863,045
2- Reserve for Unexpired Risks- Net	17	93,603,413	13,154,961
3- Life Mathematical Provisions - Net	17	1,377,701	1,192,786
4- Provision for Outstanding Claims - Net	17	957,030,446	695,600,408
5- Provision for Bonus and Discounts – Net		--	--
6- Provisions for Policies Investment Risks of Which Belong to Life Insurance Policyholders – Net		--	--
7- Other Technical Provisions – Net		--	--
F- Provisions for Taxes and Other Similar Obligations	**19**	**17,827,446**	**12,080,590**
1- Taxes and Funds Payable		16,254,171	10,695,739
2- Social Security Premiums Payable		1,573,275	1,384,851
3- Overdue, Deferred or By Installment Taxes and Other Liabilities		--	--
4- Other Taxes and Similar Payables		--	--
5- Corporate Tax Payable		220,899	17,710,317
6- Prepaid Taxes and Other Liabilities Regarding Current Year Income		(220,899)	(17,710,317)
7- Provisions for Other Taxes and Similar Liabilities		--	--
G- Provisions for Other Risks	**23**	**--**	**2,759,998**
1- Provision for Employee Termination Benefits		--	--
2- Provision for Pension Fund Deficits		--	--
3- Provisions for Costs	23	--	2,759,998
H- Deferred Income and Expense Accruals		**35,792,671**	**26,486,580**
1- Deferred Income	10,19	23,082,489	15,731,429
2- Expense Accruals	19	2,661,613	354,281
3- Other Deferred Income and Expense Accruals	23	10,048,569	10,400,870
I- Other Short Term Liabilities	**23**	**722,001**	**628,513**
1- Deferred Tax Liabilities		--	--
2- Inventory Count Differences		--	--
3- Other Various Short Term Liabilities	23	722,001	628,513
III – Total Short Term Liabilities		**2,530,999,097**	**1,827,826,719**

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

(Currency: Turkish Lira (TL))

LIABILITIES			
IV- Long-Term Liabilities	**Note**	**Audited Current Period 31 December 2011**	**Audited Prior Period 31 December 2010**
A- Financial Liabilities		**--**	**--**
1- Borrowings from Financial Institutions		--	--
2- Finance Lease Payables		--	--
3- Deferred Leasing Costs		--	--
4- Bonds Issued		--	--
5- Other Financial Assets Issued		--	--
6- Valuation Differences of Other Financial Assets Issued		--	--
7- Other Financial Liabilities		--	--
B- Payables Arising from Operating Activities		**--**	**--**
1- Payables Arising from Insurance Operations		--	--
2- Payables Arising from Reinsurance Operations		--	--
3- Cash Deposited by Insurance and Reinsurance Companies		--	--
4- Payables Arising from Pension Operations		--	--
5- Payables Arising from Other Operations		--	--
6- Discount on Payables from Other Operations		--	--
C- Due to Related Parties		**--**	**--**
1- Due to Shareholders		--	--
2- Due to Associates		--	--
3- Due to Subsidiaries		--	--
4- Due to Joint Ventures		--	--
5- Due to Personnel		--	--
6- Due to Other Related Parties		--	--
D- Other Payables	**19**	**16,724,304**	**--**
1- Deposits and Guarantees Received		--	--
2- Other Miscellaneous Payables		20,167,047	--
3- Discount on Other Miscellaneous Payables		(3,442,743)	--
E-Insurance Technical Provisions	**17**	**40,303,163**	**38,056,103**
1- Reserve for Unearned Premiums - Net		--	--
2- Reserve for Unexpired Risks- Net		--	--
3- Life Mathematical Provisions - Net		--	--
4- Provision for Outstanding Claims - Net		--	--
5- Provision for Bonus and Discounts – Net		--	--
6- Provisions for Policies Investment Risks of Which Belongs to Life Insurance Policyholders – Net		--	--
7- Other Technical Provisions – Net	17	40,303,163	38,056,103
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**	**36,951,943**	**30,591,814**
1- Provisions for Employment Termination Benefits	23	11,781,696	9,818,559
2- Provisions for Pension Fund Deficits	22,23	25,170,247	20,773,255
H-Deferred Income and Expense Accruals	**19**	**66,666**	**78,024**
1- Deferred Income		66,666	78,024
2- Expense Accruals		--	--
3- Other Deferred Income and Expense Accruals		--	--
I- Other Long Term Liabilities		**--**	**--**
1- Deferred Tax Liabilities		--	--
2- Other Long Term Liabilities		--	--
IV - Total Long Term Liabilities		**94,046,076**	**68,725,941**

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

(Currency: Turkish Lira (TL))

EQUITY			
V- Equity	**Note**	**Audited Current Period 31 December 2011**	**Audited Prior Period 31 December 2010**
A- Paid in Capital		**615,000,000**	**525,000,000**
1- (Nominal) Capital	2.13,15	615,000,000	525,000,000
2- Unpaid Capital		--	--
3- Positive Capital Restatement Differences		--	--
4- Negative Capital Restatement Differences		--	--
B- Capital Reserves	**15**	**(735,708)**	**(357,479)**
1- Share Premiums		--	--
2- Cancellation Profits of Equity Shares		--	--
3- Profit on Sale Assets That Will Be Transferred to Capital		--	--
4- Currency Translation Adjustments	15	(5,367,227)	(357,479)
5- Other Capital Reserves	15	4,631,519	--
C- Profit Reserves		**91,133,993**	**206,894,497**
1- Legal Reserves	15	73,993,593	65,623,606
2- Statutory Reserves	15	44,333,069	119,566,517
3- Extraordinary Reserves	15	14,084,730	5,656,554
4- Special Funds	15	--	--
5- Revaluation of Financial Assets	11,15	4,457,325	61,782,544
6- Other Profit Reserves	15	25,325,325	25,325,325
7- Transactions under common control	15	(71,060,049)	(71,060,049)
D- Retained Earnings		**7,018,250**	**23,848,806**
1- Retained Earnings		7,018,250	23,848,806
E- Accumulated Losses		**--**	**(14,299,554)**
1- Accumulated Losses		--	(14,299,554)
F-Net Profit/(Loss) for the Year		**(163,886,498)**	**69,206,080**
1- Net Profit for the Year		--	64,569,908
2- Net Loss for the Year		(163,932,361)	--
3- Profit not Available for Distribution		45,863	4,636,172
G- Non-controlling interest		**271,121,673**	**293,026,925**
V- Total Equity		**819,651,710**	**1,103,319,275**
TOTAL EQUITY AND LIABILITIES		**3,444,696,883**	**2,999,871,935**

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

(Currency: Turkish Lira (TL))

I-TECHNICAL SECTION	Note	Audited Current Period 31 December 2011	Audited Prior Period 31 December 2010
A- Non-Life Technical Income		**2,252,949,141**	**1,173,842,216**
1- Earned Premiums (Net of Reinsurer Share)		2,025,768,118	1,058,511,235
1.1- Written Premiums (Net of Reinsurer Share)	17	2,389,786,635	1,099,926,680
1.1.1- Written Premiums, gross	17	2,811,225,263	1,245,399,494
1.1.2- Written Premiums, ceded	10, 17	(421,438,628)	(145,472,814)
1.2- Change in Reserve for Unearned Premiums (Net of Reinsurer Shares and Less the Amounts Carried Forward)	17, 29	(283,570,065)	(40,778,841)
1.2.1- Reserve for Unearned Premiums, gross	17	(349,288,473)	(41,074,381)
1.2.2- Reserve for Unearned Premiums, ceded	10,17	65,718,408	295,540
1.3- Change in Reserve for Unexpired Risks (Net of Reinsurer Share and Less the Amounts Carried Forward)	29	(80,448,452)	(636,604)
1.3.1- Reserve for Unexpired Risks, gross		(86,507,971)	(7,369,733)
1.3.2- Reserve for Unexpired Risks, ceded		6,059,519	6,733,129
2- Investment Income - Transferred from Non-Technical Section		147,923,921	95,759,190
3- Other Technical Income (Net of Reinsurer Share)		79,257,102	19,571,791
3.1- Other Technical Income, gross		77,999,877	19,296,407
3.2- Other Technical Income, ceded		1,257,225	275,384
B- Non-Life Technical Expense		**(2,470,860,545)**	**(1,090,454,360)**
1- Incurred Losses (Net of Reinsurer Share)		(1,827,353,378)	(768,929,536)
1.1- Claims Paid (Net of Reinsurer Share)	17, 29	(1,565,776,973)	(759,619,330)
1.1.1- Claims Paid, gross	17	(1,632,277,612)	(832,556,329)
1.1.2- Claims Paid, ceded	10, 17	66,500,639	72,936,999
1.2- Change in Provisions for Outstanding Claims (Net of Reinsurer Share and Less the Amounts Carried Forward)	17, 29	(261,576,405)	(9,310,206)
1.2.1- Change in Provisions for Outstanding Claims, gross	17	(252,801,109)	61,297,670
1.2.2- Change in Provisions for Outstanding Claims, ceded	10,17	(8,775,296)	(70,607,876)
2- Change in Provision for Bonus and Discounts (Net of Reinsurer and Less the Amounts Carried Forward)		--	--
2.1- Provision for Bonus and Discounts, gross		--	--
2.2- Provision for Bonus and Discounts, ceded		--	--
3- Change in Other Technical Reserves (Net of Reinsurer Share and Less the Amounts Carried Forward)	29	(2,049,096)	(6,418,575)
4- Operating Expenses	32	(641,458,071)	(315,106,249)
C- Net Technical Income-Non-Life (A – B)		**(217,911,404)**	**83,387,856**
D- Life Technical Income		**17,763,764**	**15,323,781**
1- Earned Premiums (Net of Reinsurer Share)		16,338,915	14,301,819
1.1- Written Premiums (Net of Reinsurer Share)	17	16,791,181	16,975,849
1.1.1- Written Premiums, gross	17	17,434,891	17,808,180
1.1.2- Written Premiums, ceded	10, 17	(643,710)	(832,331)
1.2- Change in Reserve for Unearned Premiums (Net of Reinsurer Shares and Less the Amounts Carried Forward)	17, 29	(452,266)	(2,674,030)
1.2.1- Reserve for Unearned Premiums, gross	17	(214,301)	(2,863,455)
1.2.2- Reserve for Unearned Premiums, ceded	17	(237,965)	189,425
1.3- Change in Reserve for Unexpired Risks (Net of Reinsurer Share and Less the Amounts Carried Forward)		--	--
1.3.1- Reserve for Unexpired Risks, gross		--	--
1.3.2- Reserve for Unexpired Risks, ceded		--	--
2- Investment Income		1,371,200	981,000
3- Unrealized Gains on Investments		--	--
4- Other Technical Income (Net of Reinsurer Share)		53,649	40,962

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

(Currency: Turkish Lira (TL))

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

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

(Currency: Turkish Lira (TL))

II-NON-TECHNICAL SECTION	**Note**	**Audited Current Period 31 December 2011**	**Audited Prior Period 31 December 2010**
C- Net Technical Income – Non-Life (A-B)		**(217,911,404)**	**83,387,856**
F- Net Technical Income – Life (D-E)		**2,564,291**	**456,342**
I - Net Technical Income – Pension Business (G-H)		**--**	**--**
J- Total Net Technical Income (C+F+I)		**(215,347,113)**	**83,844,198**
K- Investment Income		**276,019,989**	**177,157,573**
1- Income from Financial Assets	4.2	131,725,638	97,318,044
2- Income from Disposal of Financial Assets	4.2	58,071,242	41,182,492
3- Valuation of Financial Assets	4.2	(16,494,071)	(7,911,271)
4- Foreign Exchange Gains	4.2	55,415,455	16,760,594
5- Income from Associates	4.2	16,463,338	7,739,881
6- Income from Subsidiaries and Joint Ventures	4.2	2,310	--
7- Income from Property, Plant and Equipment		9,910,901	17,157,777
8- Income from Derivative Transactions	4.2	20,835,733	4,910,056
9- Other Investments	4.2	89,443	--
10- Income Transferred from Life Section		--	--
L- Investment Expense		**(255,652,394)**	**(131,188,061)**
1- Investment Management Expenses (including interest)	4.2	(678,809)	(2,365,957)
2- Diminution in Value of Investments	4.2	(19,967,729)	(1,019,812)
3- Loss from Disposal of Financial Assets	4.2	(15,604,346)	(5,503,835)
4- Investment Income Transferred to Non-Life Technical Section		(147,923,921)	(95,759,190)
5- Loss from Derivative Transactions	4.2	(36,484,299)	(3,404,360)
6- Foreign Exchange Losses	4.2	(20,429,120)	(14,366,199)
7- Depreciation and Amortization Expenses	6, 8	(10,113,640)	(3,975,945)
8- Other Investment Expenses		(4,450,530)	(4,792,763)
M- Income and Expenses From Other and Extraordinary Operations		**28,177,449**	**(27,849,414)**
1- Provisions	47	(17,503,017)	(24,446,155)
2- Rediscounts	47	3,193,602	(2,270,808)
3- Specified Insurance Accounts		--	--
4- Monetary Gains and Losses		--	--
5- Deferred Taxation (Deferred Tax Assets)	35	44,940,166	1,519,439
6- Deferred Taxation (Deferred Tax Liabilities)	35	(3,573,378)	(3,116,059)
7- Other Income		1,389,921	695,463
8- Other Expenses and Losses		(269,845)	(231,294)
9- Prior Year's Income		--	--
10- Prior Year's Expenses and Losses		--	--
N- Net Profit for the Year		**(167,022,968)**	**84,253,979**
1- Profit for the Year		(166,802,069)	101,964,296
2- Corporate Tax Provision and Other Fiscal Liabilities	35	(220,899)	(17,710,317)
3- Net Profit for the Year		(167,022,968)	84,253,979
3.1-Equity Holders of the Parent		(163,886,498)	69,206,080
3.2-Non-controlling Interest		(3,136,470)	15,047,899
4- Monetary Gains and Losses		--	--

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

(Currency: Turkish Lira (TL))

	Note	Audited Current Period 31 December 2011	Audited Prior Period 31 December 2010
A. Cash flows from operating activities			
1. Cash provided from insurance activities		1,912,099,831	837,420,199
2. Cash provided from reinsurance activities		1,106,563,217	447,335,306
3. Cash provided from private pension business		--	--
4. Cash used in insurance activities		(1,869,713,526)	(313,200,946)
5. Cash used in reinsurance activities		(1,023,982,126)	(119,236,619)
6. Cash used in private pension business		--	--
7. Cash provided from operating activities		**124,967,396**	**852,317,940**
8. Interest paid		--	--
9. Income taxes paid		(6,693,463)	(26,744,160)
10. Other cash inflows		39,436,254	537,433
11. Other cash outflows		(47,664,005)	(460,496,403)
12. Net cash provided by / (used in) operating activities		**110,046,182**	**365,614,810**
B. Cash flows from investing activities			
1. Proceeds from disposal of tangible assets		96,054	2,181,316
2. Acquisition of tangible assets	6, 8	(16,603,208)	(4,086,228)
3. Acquisition of financial assets (*)	11, 44	(1,043,369,497)	(911,194,056)
4. Proceeds from disposal of financial assets		1,281,795,131	739,853,316
5. Interests received		136,071,854	171,961,523
6. Dividends received		5,507,930	7,739,881
7. Other cash inflows		65,415,799	38,828,427
8. Other cash outflows		(329,404,536)	(31,812,229)
9. Net cash provided by investing activities		**99,509,527**	**13,471,950**
C. Cash flows from financing activities			
1. Equity shares issued		--	--
2. Cash provided from loans and borrowings		--	--
3. Finance lease payments		--	--
4. Dividends paid		(40,282,072)	(51,627,390)
5. Other cash inflows		--	--
6. Other cash outflows		--	--
7. Net cash provided by financing activities		**(40,282,072)**	**(51,627,390)**
D. Effect of exchange rate fluctuations on cash and cash equivalents		**876,846**	**1,824**
E. Net increase in cash and cash equivalents		**170,150,483**	**327,459,370**
F. Cash and cash equivalents at the beginning of the year	**14**	**906,256,255**	**578,795,061**
G. Cash and cash equivalents at the end of the year	**14**	**1,076,406,738**	**906,256,255**

(*) Acquisition of financial assets amounting to TL 911,194,056 includes acquisition of financial assets amounting to TL 662,483,902 (Note 11) and acquisition of subsidiary amounting to TL 248,710,154 (Note 44).

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

(Currency: Turkish Lira (TL))

Audited Changes in Equity – 31 December 2010

	Note	Paid-in Capital	Own Shares of the Company	Revaluation of Financial Assets	Inflation Adjustment	Currency Translation Adjustment	Legal Reserves	Statutory Reserves	Other Reserves and Retained Earnings	Net Profit for the Year	Retained Earnings	Total Equity Attributable to Equity Holders of the Parent	Non-controlling Interest	Total
I - Balance at the end of the previous year – 31 December 2009		**385,000,000**	**--**	**34,099,893**	**--**	**--**	**30,583,364**	**91,000,000**	**143,102,206**	**61,699,643**	**51,082,565**	**796,567,671**	**--**	**796,567,671**
II – Correction (*)	2.1.6	--	--	(4,737,412)	--	--	7,639,460	3,130,134	24,257,571	16,439,661	(58,925,101)	(12,195,687)	--	(12,195,687)
III – Restated balances (I+II) – 31 December 2009	**15**	**385,000,000**	**--**	**29,362,481**	**--**	**--**	**38,222,824**	**94,130,134**	**167,359,777**	**78,139,304**	**(7,842,536)**	**784,371,984**	**--**	**784,371,984**
A – Capital increase		140,000,000	--	--	--	--	--	--	(140,000,000)	--	--	--	--	--
1 – In cash		--	--	--	--	--	--	--	--	--	--	--	--	--
2 – From reserves		*140,000,000*	--	--	--	--	--	--	*(140,000,000)*	--	--	--	--	--
B – Effects of Group structure change		--	--	9,059,005	--	--	14,114,743	1,680,746	(66,044,815)	--	25,601,246	(15,589,075)	276,677,920	261,088,845
C – Purchase of own shares		--	--	--	--	--	--	--	--	--	--	--	--	--
D – Gains or losses that are not included in the statement of income		--	--	--	--	--	--	--	--	--	--	--	--	--
E – Change in the value of financial assets		--	--	23,361,058	--	--	--	--	--	--	--	23,361,058	1,301,106	24,662,164
F – Currency translation adjustments		--	--	--	--	(357,479)	--	--	--	--	--	(357,479)	--	(357,479)
G – Other gains or losses		--	--	--	--	--	--	--	--	--	--	--	--	--
H – Inflation adjustment differences		--	--	--	--	--	--	--	--	--	--	--	--	--
I – Net profit for the year		--	--	--	--	--	--	--	--	69,206,080	--	69,206,080	15,047,899	84,253,979
J – Other reserves and transfers from retained earnings		--	--	--	--	--	13,286,039	23,755,637	(1,393,132)	(26,511,914)	(8,209,458)	927,172	--	927,172
K – Dividends paid		--	--	--	--	--	--	--	--	(51,627,390)	--	(51,627,390)	--	(51,627,390)
II – Balance at the end of the year – 31 December 2010	**15**	**525,000,000**	**--**	**61,782,544**	**--**	**(357,479)**	**65,623,606**	**119,566,517**	**(40,078,170)**	**69,206,080**	**9,549,252**	**810,292,350**	**293,026,925**	**1,103,319,275**

Audited Changes in Equity – 31 December 2011

	Note	Paid-in Capital	Own Shares of the Company	Revaluation of Financial Assets	Inflation Adjustment	Currency Translation Adjustment	Legal Reserves	Statutory Reserves	Other Reserves and Retained Earnings	Net Profit for the Year	Retained Earnings	Total Equity Attributable to Equity Holders of the Parent	Non-controlling Interest	Total
I - Balance at the end of the previous year – 31 December 2010	**15**	**525,000,000**	**--**	**61,782,544**	**--**	**(357,479)**	**65,623,606**	**119,566,517**	**(40,078,170)**	**69,206,080**	**9,549,252**	**810,292,350**	**293,026,925**	**1,103,319,275**
A – Capital increase		90,000,000	--	--	--	--	--	(90,000,000)	--	--	--	--	--	--
1 – In cash		--	--	--	--	--	--	--	--	--	--	--	--	--
2 – From reserves		*90,000,000*	--	--	--	--	--	*(90,000,000)*	--	--	--	--	--	--
B – Effects of Group structure change		--	--	--	--	--	--	--	--	--	--	--	--	--
C – Purchase of own shares		--	--	--	--	--	--	--	--	--	--	--	--	--
D – Gains or losses that are not included in the statement of income		--	--	--	--	--	--	--	--	--	--	--	--	--
E – Change in the value of financial assets		--	--	(57,325,219)	--	--	--	--	--	--	--	(57,325,219)	(14,027,558)	(71,352,777)
F – Currency translation adjustments		--	--	--	--	(5,009,748)	--	--	--	--	--	(5,009,748)	--	(5,009,748)
G – Other gains or losses		--	--	--	--	--	--	--	--	--	--	--	--	--
H – Inflation adjustment differences		--	--	--	--	--	--	--	--	--	--	--	--	--
I – Net profit for the year		--	--	--	--	--	--	--	--	(163,886,498)	--	(163,886,498)	(3,136,470)	(167,022,968)
J – Other reserves and transfers from retained earnings		--	--	--	--	--	8,369,987	14,766,552	13,059,695	(33,665,232)	(2,531,002)	--	--	--
K – Dividends paid		--	--	--	--	--	--	--	--	(35,540,848)	--	(35,540,848)	(4,741,224)	(40,282,072)
II – Balance at the end of the year – 31 December 2011	**15**	**615,000,000**	**--**	**4,457,325**	**--**	**(5,367,227)**	**73,993,593**	**44,333,069**	**(27,018,475)**	**(163,886,498)**	**7,018,250**	**548,530,037**	**271,121,673**	**819,651,710**

(*) Refer to note 2.1.6.

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

(Currency: Turkish Lira (TL))

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

(*) According to Turkish legislation, unconsolidated current year profit is used for profit distribution. Therefore, profit distribution table presented above belongs to the Parent Company.

(**) The Company has incurred loss for the year ended 31 December 2011 and therefore profit distribution table is not prepared.

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

1 General information

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

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

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

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

The consolidated financial statements as at 31 December 2011 comprise the Company and its subsidiary, namely Anadolu Sigorta (together referred to as the"Group").

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.

The Company's subsidiary Anadolu Sigorta operates in almost all non-life insurance branches consisting of mainly accident, health, motor vehicles, air vehicles, water vehicles, transportation, fire and natural disasters, general loss, credit, financial losses, and legal protection. As at 31 December 2011, Anadolu Sigorta serves through 2,756 agencies (31 December 2010: 1,664 agencies) of which 2,688 authorized and 68 unauthorized agencies (31 December 2010: 1,600 authorized and 64 unauthorized).

1.4 Description of the main operations of the Company

The Company and its subsidiary Anadolu Sigorta conduct 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.

(Currency: Turkish Lira (TL))

1 General information *(continued)*

1.4 Description of the main operations of the Company *(continued)*

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.

Anadolu Sigorta was registered in Turkey and has the status of 'Incorporated Company', operates in insurance branches that is described in Note 1.3 – *Business of the Company.* Anadolu Sigorta's shares have been listed on the Istanbul Stock Exchange ("ISE"). In accordance with Article 50(a) in Section VII of the Capital Markets Law, insurance companies have to comply with their own specific laws and regulations in matters of establishment, auditing, supervision/oversight, accounting and financial reporting; therefore, the Company performs its operations accordingly.

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

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

	31 December 2011	31 December 2010
Senior managers	16	15
Managers	159	147
Intermediate directors	371	365
Officers	286	315
Contracted personnel	208	176
Other personnel	50	52
Total	**1,090**	**1,070**

1.6 Wages and similar benefits provided to the senior management

For the year ended 31 December 2011, wages and similar benefits provided to the senior management including chairman, members of the board of the directors, general manager, general coordinator, and deputy general managers is amounting to TL 8,749,675 (31 December 2010: TL 7,738,481).

1 General information *(continued)*

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

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

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

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

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

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

The accompanying financial statements comprise only the consolidated financial information of the Group. As further discussed in note 2.2 – *Consolidation.*

The consolidated financial statements of the Company's subsidiary with a 57.31% share; Anadolu Sigorta is included in the consolidated financial statements in the current period. Anadolu Sigorta owns 21% of Anadolu Hayat Emeklilik AŞ ("Anadolu Hayat") and this associate has been consolidated in the accompanying consolidated financial statements by using the equity method of accounting.

The activities of Anadolu Hayat involve providing individual and group insurance and reinsurance services relating to group life, individual life, retirement and related personal accident branches, establishing retirement funds, developing internal rules and regulations related to these funds, carrying out retirement, annual income insurance, portfolio management and custody contracts for the assets of the funds held in custody.

1 General information *(continued)*

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

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

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

1.10 Events after the reporting date

Additional explations on the utilization of equalization provision for the earthquake losses are announced by the Turkish Treasury via "Communiqué on Utilization of Equalization Provision and Additional Explanations on Some of Communiqués" numbered 2012/1. Outstanding claims supported by expert reports or documents obtained from official institutions could be deducted from prior periods' equalization provision balance although current year equalization provision balance could not be used. Losses resulted from earthquake should be recorded as claims paid in the related technical income statement account, debited on equalization provision balance and credited on change in other technical reserves balance. Claims compensated from equalization provision may not be included in IBNR calculations based on the companies' decisions.

2 Summary of significant accounting policies

2.1 Basis of preparation

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

The Group maintains its books of account and prepares its consolidated 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.

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

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

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

Accounting in hyperinflationary countries

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

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

Other accounting policies

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

Information regarding other accounting 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 consolidated financial statements are presented in TL, which is the Group'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.

(Currency: Turkish Lira (TL))

2 Summary of significant accounting policies *(continued)*

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

The accompanying consolidated 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 and derivative financial instruments which are measured at their fair values unless reliable measures are available.

2.1.6 Accounting policies, changes in accounting estimates and errors

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

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

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

(Currency: Turkish Lira (TL))

2 Summary of significant accounting policies *(continued)*

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

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

	31 December 2009			
	Net profit for the year	**Revaluation of financial assets**	**Prior year losses**	**Total equity effect**
As previously reported:	**61,699,643**	**34,099,893**	**315,768,135**	**411,567,671**
TAS 29 – Calculation of accumulated depreciation for tangible assets according to inflation accounting	--	--	(14,299,554)	(14,299,554)
TAS 39 – Correction of valuation of financial assets	2,047,656	(3,470,494)	1,967,496	544,658
TAS 12 – Correction of deferred corporate tax on financial assets	3,759,375	(1,266,918)	495,943	2,988,400
TAS 19 – Employee benefits	(1,429,191)	--	--	(1,429,191)
TAS 28 – Correction of consolidation by using equity method of accounting on related accounts	12,061,821	--	(12,061,821)	--
Total effects of the corrections	**16,439,661**	**(4,737,412)**	**(23,897,936)**	**(12,195,687)**
As restated	**78,139,304**	**29,362,481**	**291,870,199**	**399,371,984**

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

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

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

2 Summary of significant accounting policies *(continued)*

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

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

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

(Currency: Turkish Lira (TL))

2 Summary of significant accounting policies *(continued)*

2.2 Consolidation

"Circular Related to the Preparation of the Consolidated Financial Statements of Insurance, Reinsurance and Individual Pension Companies" issued by the Turkish Treasury in the Official Gazette dated 31 December 2008 and numbered 27097 ("the Circular for Consolidation") requires that insurance, reinsurance and individual pension companies issue consolidated financial statements starting from 31 March 2009. In this context, consolidated financial statements are prepared by fully consolidated Company's subsidiary; Anadolu Sigorta and by using the equity method of accounting to consolidate Anadolu Sigorta's associate; Anadolu Hayat.

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

Direct and indirect ownerships of the consolidated subsidiary are as follows. Information about the Company's associate Anadolu Hayat, that is consolidated by using equity method of accounting, is presented in Note 9.

Name	Indirect ownership	Direct ownership	Total Assets	Shareholders' equity	Retained earnings	Loss for the year
Anadolu Sigorta (consolidated)	57.31%	57.31%	2,131,283,176	627,391,657	14,826,927	(1,347,085)

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

Transactions eliminated on consolidation

In preparing consolidated financial statements, the Group combines the financial statements of the Company and its subsidiary Anadolu Sigorta line by line by adding together like items of assets, liabilities, equity, income and expenses. The carrying amount of the Company's investment in Anadolu Sigorta and the Company's portion of equity of Anadolu Sigorta is eliminated. Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions between the Company and Anadolu Sigorta are eliminated in preparing the consolidated financial statements.

The accounting policies of subsidiary have been changed when necessary to align them with the policies adopted by the Company.

2 Summary of significant accounting policies *(continued)*

2.2 Consolidation *(continued)*

Non-controlling interest

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the parent's ownership interests in them. Non-controlling interests in the net assets consist of: (i) the amount of those non-controlling interests at the date of the original combination; and (ii) the non-controlling interests' share of changes in equity since the date of the combination. Non-controlling interests in the profit or loss of consolidated subsidiaries for the reporting period are identified; and presented as “non-controlling interest” in the consolidated income statement.

2.3 Segment reporting

An operating segment is a component of the group 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 Groups’s other components, whose operating results are reviewed regularly by the Board of Directors (being chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. The group 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 Group’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 consolidated income statement 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.

(Currency: Turkish Lira (TL))

2 Summary of significant accounting policies *(continued)*

2.5 Tangible assets *(continued)*

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 – 16	6.3 – 33.3
Furniture and fixtures	3 – 16	6.3 – 33.3
Vehicles	5	20.0
Other tangible assets (includes leasehold improvements)	5 – 10	10.0 – 20.0
Leased assets	4 – 10	10.0– 25.0

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 Group 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 Group’s intangible assets consist of computer software and goodwill.

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 group and will probably provide more economic benefits than costs in one year are recognized as intangible assets. Costs include software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognized as assets are amortized over their estimated useful lives (not exceeding three years).

2 Summary of significant accounting policies *(continued)*

2.7 Intangible assets *(continued)*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of the acquisition. Goodwill on acquisitions of associates is included in 'investments in associates' and is tested for impairment as part of the overall balance. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gain or losses on the disposal of an entity includes the carrying amount of goodwill relating to the entity disposed of.

For the purpose of impairment testing, goodwill is allocated to cash-generating units. The allocations made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arises.

The Group has acquired the health portfolio of Anadolu Hayat at 31 August 2004 with all of its rights and liabilities. The value at acquisition of the portfolio amounting to TL 16,250,000 is capitalized as goodwill by the Group.

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 consolidated 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 consolidated 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 Group 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 Group 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.

2 Summary of significant accounting policies *(continued)*

2.8 Financial assets *(continued)*

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 consolidated shareholders' equity. Upon disposal, the realized gain or losses are recognized directly in the consolidated 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.

The Group's associate Anadolu Hayat is consolidated by using equity method of accounting in the accompanying consolidated financial statements.

A financial asset is derecognized when the control over the contractual rights that comprise that asset is lost. This occurs when the rights are realized, expire or are surrendered.

2.9 Impairment on asset

Impairment on financial assets

Financial assets or group of financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such indication exists, the Group 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 consolidated income statement. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in equity.

2 Summary of significant accounting policies *(continued)*

2.9 Impairment on assets *(continued)*

Impairment on tangible and intangible assets

On each reporting date, the Group 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

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 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 consolidated 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 Group 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 Group's similar activities like trading transactions.

2.12 Cash and cash equivalents

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

(Currency: Turkish Lira (TL))

2 Summary of significant accounting policies *(continued)*

2.13 Capital

The shareholder having direct or indirect control over the shares of the Company is İş Bankası Group. As at 31 December 2011 and 2010, the share capital and ownership structure of the Company are as follows:

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

Sources of the capital increases during the year

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

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

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

As per the resolution of General Assembly held on 26 March 2010, the Company’s nominal statutory share capital increased from TL 385,000,000 to TL 525,000,000 by TL 140,000,000 through TL 137,655,806 as transfer from earthquake provision recorded under other reserves in the accompanying financial statements, TL 2,073,977 as transfer from profits on sales of real states and associates that will be transferred to capital and TL 270,217 transfer from extraordinary reserves. The registration of the increase in paid-in capital was completed on 8 April 2010.

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 Summary of significant accounting policies *(continued)*

2.14 Insurance and investment contracts - classification

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

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

The Group 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 on the basis of retrocession contracts.

As at the reporting date, the Group 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 at the reporting date, the Goup does not have any insurance or investment contracts that contain a DPF.

2.16 Investment contracts with DPF

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

2 Summary of significant accounting policies *(continued)*

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 Group are measured at their discounted values. A financial liability is derecognized when it is extinguished.

2.18 Income taxes

Corporate tax

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

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

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

In accordance with the tax legislation, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods. As at 31 December 2011, the Group has deductible tax losses, amounting to TL 102,473,807 (31 December 2010: None).

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

Deferred tax

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

The deferred tax assets and liabilities are reported as net in the financial statements if, and only if, the Group companies have 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 consolidated statement of income, then the related current and/or deferred tax effects are also recognized in the consolidated 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.

2 Summary of significant accounting policies *(continued)*

2.18 Income taxes *(continued)*

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 and employees of the Company's subsidiary Anadolu Sigorta are the members of 'Anonim Türk Sigorta Şirketi Memurları Emekli Sandığı'.

As per the temporary sub article No: 20 of the Article 73 of the Social Security Law, pension funds should be transferred to the Social Security Institution within three years after the publication of the aforementioned Law published in the Official Gazette numbered 26870 and dated 8 May 2008. The related three-year transfer period has been prolonged for two years by the Cabinet decision, which was published on the Official Gazette dated 9 April 2011. Accordingly, the three-year period expired on 8 May 2011 was extended to the 8 May 2013. The principles and applications of the transfer will be determined by the Decree of the Council of Ministers seperately.

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

(Currency: Turkish Lira (TL))

2 Summary of significant accounting policies *(continued)*

2.19 Employee benefits *(continued)*

Employee termination benefits (continued)

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

	31 December 2011	31 December 2010
Discount rate	3.77-4.50%	4.66%
Expected rate of salary/limit increase	5.10%	5.10%
Estimated employee turnover rate	3.94%	2.80%

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

Other benefits

The Group 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 Group 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 Group. Contingent assets are not recognized in consolidated 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 consolidated 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 consolidated financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, the Group discloses the contingent asset.

2.21 Revenue recognition

Written premiums

Written premiums represent premiums taken from insurance and reinsurance companies as a reinsurance group and policies written during the year net of taxes, premiums of the cancelled policies which were produced in prior years and premium ceded to reinsurance companies. 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.

(Currency: Turkish Lira (TL))

2 Summary of significant accounting policies *(continued)*

2.21 Revenue recognition *(continued)*

Claims paid

Claims paid represent payments of the Group 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.

Claims are recognized as expense as they are paid. Outstanding claims provision is provided for both reported unpaid claims at period-end and incurred but not reported claims. Reinsurer's shares of claims paid and outstanding claims provisions are off-set against these reserves.

Subrogation, salvage and quasi income

According to the Circular 2010/13 dated 20 September 2010; the Group may account for income accrual for subrogation receivables without any voucher after the completion of the claim payments made to the insuree. If the amount cannot be collected from the counterparty insurance company, the Group provides provision for uncollected amounts due for six months. If the counter party is not an insurance company, the provision is provided after four months. As at the reporting date, in accordance with the related circular the Group provided TL 32,373,486 (31 December 2010: TL 23,822,786) subrogation receivables and recorded TL 39,723,166 (TL 31 December 2010: TL 31,229,166) (*Note 12*) amount net subrogation and salvage receivables under receivables from main operations. Group provided allowance for uncollected subrogation receivables amounting to TL 4,649,888 (31 December 2010: TL 3,229,103) *(Note 12)* in accordance with circular.

As at 31 December 2011 ve 2010, salvage and subrogation collected are as follows:

	31 December 2011	31 December 2010
Motor vehicles	178,164,179	41,796,163
Transportation	3,235,776	430,958
Third party liability for motor vehicles (MTPL)	2,550,366	863,681
Fire and natural disasters	1,463,679	909,516
General losses	317,961	85,718
Health	79,300	7,744
Water vehicles	71,727	122,155
Accident	67,297	30,777
General responsibility	64,955	11,209
Air crafts	12,000	--
Credit	6,000	--
Total	**186,033,240**	**44,257,921**

As at 31 December 2011 and 2010, accrued subrogation and salvage income per branches is as follows:

	31 December 2011	31 December 2010
Motor vehicles	35,020,897	27,711,976
Fire and natural disasters	2,007,084	1,184,496
Third party liability for motor vehicles (MTPL)	1,774,014	1,484,232
Transportation	642,873	792,541
General losses	131,584	42,403
Accident	125,893	2,499
Water vehicles	14,362	--
General responsibility	6,189	11,019
Total	**39,723,166**	**31,229,166**

2 Summary of significant accounting policies *(continued)*

2.21 Revenue recognition *(continued)*

Commission income and expense

As further disclosed in Note 2.24 - *Reserve for unearned premiums*, commissions paid to the agencies related to the production of the insurance policies and the commissions received from the reinsurance firms related to the premiums ceded 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 expense

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 consolidated financial statements.

Dividends

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

2.22 Leasing transactions

The maximum period of the lease contracts is 10 years. Tangible assets acquired by way of finance leases are recorded in tangible assets and the obligations under finance leases arising from the lease contracts are presented under “Finance Lease Payables” account in the financial statements. In the determination of the related asset and liability amounts, the lower of the fair value of the leased asset and the present value of leasing payments is considered. Financial costs on leasing agreements are expanded in lease periods at a fixed interest rate.

If there is impairment in the value of the assets obtained through finance lease and in the expected future benefits, the leased assets are measured at net realizable value. Depreciation for assets obtained through financial lease is calculated in the same manner as tangible assets.

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

2.23 Dividend distribution

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

2 Summary of significant accounting policies *(continued)*

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.

The Company's subsidiary Anadolu Sigorta calculates reserve for unearned premiums based on basis above.

Inline 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 Group has started to calculate reserve for unearned premiums for the earthquake premiums written after 14 June 2007, while the Group 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 Summary of significant accounting policies *(continued)*

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.

Claims incurred before the accounting periods but reported subsequent to those dates are considered as incurred but not reported ("IBNR") claims.

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 and "Communiqué on Technical Reserves and Circular on Actuarial Chain Ladder Method" dated 20 September 2010 and numbered 2010/12, it is stated that the difference between the result of the actuarial chain ladder method and reported but not settled (IBNR calculation by ACML method) is compared to test IBNR claims and greater amount is recorded to financial statements are accepted as IBNR claims. As at 31 December 2011, 50% of the calculated negative IBNR balances per each insurance branch is taken into calculation in accordance with the Circular issued by the Turkish Treasury dated 14 January 2011 and numbered 2011/1.

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.

Test IBNR is calculated by claims incurred before the accounting periods but reported subsequent to those dates. Last five or more than five years' weighted average calculated by dividing total amount of incurred but not reported claims after deducting salvage and subrogation related to these files to premium production of the related years is considered in the calculation of IBNR. As of the current reporting date, IBNR is calculated by multiplying weighted average IBNR ratio by the premium production of last twelve months before reporting date.

(Currency: Turkish Lira (TL))

2 Summary of significant accounting policies *(continued)*

2.25 Provision for outstanding claims *(continued)*

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. But the company's subsidiary Anadolu Sigorta, has performed big claim elimination with the Box Plot method

Branches	Milli Reasürans	Anadolu Sigorta
Fire and natural disasters	Standard Chain Ladder	Munich Chain Ladder
General losses	Standard Chain Ladder	Munich Chain Ladder
General liability	Standard Chain Ladder	Munich Chain Ladder
Third party liability for motor vehicles (MTPL)	Standard Chain Ladder	Munich Chain Ladder
Transportation	Standard Chain Ladder	Standard Chain Ladder
Water vehicles	Standard Chain Ladder	Standard Chain Ladder
Transportation vehicles (land)	Standard Chain Ladder	Munich Chain Ladder
Accident	Standard Chain Ladder	Standard Chain Ladder
Health	Standard Chain Ladder	Standard Chain Ladder
Transportation vehicles (rail)	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 9/2011)	--
Air crafts	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 9/2011)	Standard Chain Ladder
Third party liability (water)	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)	Standard Chain Ladder
Breach of trust	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)	Standard Chain Ladder
Legal protection	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)	Standard Chain Ladder
Life	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 9/2011)	--
General liability	--	Munich Chain Ladder
Big claim elimination by Box Plox method	Not Performed	Performed

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

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

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

2 Summary of significant accounting policies *(continued)*

2.25 Provision for outstanding claims *(continued)*

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

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

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

As at the reporting date, as a result of actuarial chain ladder method; the Company except Singapore branch recorded 90% of additional provision amounting to TL 39,805,662 (31 December 2010: TL 10,490,219) as provision for outstanding claims. As at the reporting date, TL 27,608,454 (31 December 2010: TL 8,675,567) of IBNR provision is recorded for Singapore branch. The Company's subsidiary Anadolu Sigorta, result of the test IBNR is higher than IBNR calculated by ACML method as at 31 December 2011 and Anadolu Sigorta recorded 100% (31 December 2010: %100) of the test IBNR result amounting to TL 65,659,140 to the consolidated financial statements (31 December 2010: TL 48,988,752) as IBNR and TL 7,538,212 (31 December 2010: TL 8,340,686) as reinsurer's share of IBNR.

In accordance with "Circular Related to Information on Calculation of Incurred But Not Reported Claims Reserve" numbered 2011/23 and dated 26 November 2011, companies may decrease their outstanding claims reserve balances based on the winning ratio of the sub-branches calculated from the last five years claims. Winning ratio used for decrease in provision for outstanding claims could not exceed 25% (15% for the new sub-branches which do not have five year data). Based on the aforementioned regulation, the Company's subsidiary Anadolu Sigorta calculated winning ratio from the last five year data set and TL 36,906,371 as IBNR and TL 4,014,303 as reinsurer's share of IBNR is excluded from outstanding claims reserve balance.

(Currency: Turkish Lira (TL))

2 Summary of significant accounting policies *(continued)*

2.25 Provision for outstanding claims *(continued)*

The calculated winning ratio of Anadolu Sigorta as at 31 December 2011 is within 12% - 96% range. Winning ratios used in and amounts decreased from provision for outstanding claims are as follows:

Branch	Winning Ratios Used	Gross Amount Decreased	Net Amount Decreased
Third party liability for motor vehicles (MTPL)	25%	13,672,705	12,942,408
General responsibility	25%	12,181,761	11,727,295
Fire and natural disasters	25%	5,117,172	3,165,173
Motor vehicles	25%	2,271,587	2,145,098
Transportation	25%	1,285,113	1,182,535
General losses	25%	1,085,511	847,301
Water vehicles	25%	941,499	549,766
Accident	25%	342,291	323,760
Legal protection	24%	8,732	8,732
Total		**36,906,371**	**32,892,068**

New Regulations on Treatment Costs Resulted from Traffic Accidents in Accordance with the Circular Numbered 2011/18 "Circular Related to the Accounting of Payments Related to Payment of Treatment Costs Resulted from Traffic Accidents and New Accounts in the Insurance Chart of Accounts"

58^{th} and 59^{th} articles and 1^{st} and 2^{nd} provisional articles of the Law no 6111 on "Restructuring of certain receivables and amendment to the law of social insurance and general health insurance and certain other laws and decree laws" published in the Official Gazette numbered 27857 and has come into effect on 25 February 2011.

According to the Article 59 of the aforementioned law, starting from 25 February 2011, premiums written under compulsory motor third party liability insurance contracts providing health assurance will be transferred to SSI by the rate up to 15% which will be later defined by Turkish Treasury. By this premium transfer, all liabilities related to body injuries resulted from traffic accidents will be compensated by Social Security Institution ("SSI"). According to the Provisional Article 1 and Article 59 of the Law, up to 20% of the transferred premium amount defined by the Turkish Treasury will also be transferred to SSI and treatment costs resulted from traffic accidents occurred before 25 February 2011 will also be compensated by SSI. As part of the aforementioned law, "Communiqué on Payment of Treatment Costs Resulted from Traffic Accidents" which was issued in Official Gazette numbered 28038 and dated 27 August 2011 has become effective. On 17 October 2011, the Turkish Treasury issued circular numbered 2011/18 "Circular Related to the Accounting of Payments Related to Payment of Treatment Costs Resulted from Traffic Accidents and New Accounts in the Insurance Chart of Accounts". In accordance with the related circular, the Group eliminated outstanding claims reserve amounting to TL 2,279,273 related to treatment costs occurred before issuance of the aforementioned law, with "Paid Claims" account. The same amount is recorded as "Payable to SSI" under "Other Payables" in the accompanying consolidated financial statements.

In accordance with the circular numbered 2011/18, the Group recalculated test IBNR amount by excluding treatments costs covered by the aforementioned law as at 31 March 2011 and eliminated difference between the newly calculated IBNR amount and IBNR amount in the financial statements amounting to TL 2,375,923 with "Paid Claims" account. The same amount is recorded as "Payable to SSI" under "Other Payables" in the accompanying consolidated financial statements.

2 Summary of significant accounting policies *(continued)*

2.25 Provision for outstanding claims *(continued)*

The Group classified a total of TL 4,655,196 of eliminated outstanding claims reserve and IBNR related to treatment costs occurred before issuance of the aforementioned law as "Payable to SSI". According to the letter dated 23 September 2011 and numbered 41409 sent by the Turkish Treasury to Anadolu Sigorta, TL 2,832,524 for motor third party liability, 2.08% for compulsory personal accident seat insurance and 15.8% for compulsory transportation liability are informed. The difference amounting to TL 1,399,216 between the amount informed by the Turkish Treasury and the amount eliminated by the Group is transferred to "Other Technical Expense" for the year ended 31 December 2011.

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 Group meets in future and current value of premiums paid by policyholder in future (prospective method).

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

2.27 Reserve for unexpired risk

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

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

As at 31 December 2011, reserve for unexpired risks at the beginning of the period is revised according to calculation method used in the current period in order to determine consistent claims / premium ratio. According to the Circular numbered 2011/10 and dated 3 June 2011, reserve for unexpired risks is calculated by using 100% of the current period and previous period outstanding claims reserve determined by the new method and used in expected claims / premium ratio.

As at the reporting date, the Group has provided net reserve for unexpired risk amounting to TL 93,603,413 in the accompanying consolidated financial statements (31 December 2010: TL 13,154,961).

2 Summary of significant accounting policies *(continued)*

2.27 Reserve for unexpired risk *(continued)*

According to the Circular numbered 2011/18, the Group excluded both the premiums transferred to SSI and claims related to treatment costs from calculation of reserve for unexpired risks in motor third party liability, compulsory transportation financial liability and compulsory personal accident for bus transportation branches.

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" in the accompanying consolidated financial statements. As at the reporting date, the Group provided equalization provision amounting to TL 34,889,558 in the accompanying consolidated financial statements (31 December 2010: TL 32,642,498).

Net losses (after reinsurance) resulted from earthquake occurred in 2011 amounting to TL 21,450,751 are decreased from prior periods' equalization provision.

2.29 Related parties

For the purpose of the accompanying consolidated 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 Earnings per share

Earnings per share are determined by dividing the net income by the weighted average number of shares outstanding during the year attributable to the shareholders of the Group. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, such bonus shares issued are regarded as issued shares.

2 Summary of significant accounting policies *(continued)*

2.31 Events after the reporting date

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

2.32 New standards and interpretations not yet adopted

There are a number of new standards, updates related to the existing standards and interpretations which are not adopted in the preparation of the accompanying financial statements and have not yet entered into force for the accounting period 31 December 2011. 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* published by the Turkish Accounting Standards Board on Official Gazette dated 27 April 2010 and numbered 27564.

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

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

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 IFRSs. 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 Group is in the process of assessing the impact of the new standard on the financial position or performance of the Group.

2 Summary of significant accounting policies *(continued)*

2.32 New standards and interpretations not yet adopted *(continued)*

According to the circular issued by Turkish Treasury numbered 2011/23 "Circular Related to Information on Calculation of Incurred But Not Reported Claims Reserve", negative IBNR balances (IBNR calculated by ACML method or test IBNR method) will be considered as 100% instead of 50%. In addition, accrued salvage and subrogation revenues will be included to ACLM calculations. In test IBNR calculations, these accrued amounts will also be added to received salvage and subrogation amounts. In order to prevent double addition, received salvage and subrogation amounts which were presented as accrued receivables in the previous periods will not be considered in the calculations. The regulation will be effective starting from 1 January 2012.

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 11 *Joint Arrangements* focuses on the rights and obligations of joint arrangements, rather than the legal form (as is currently the case) and supersedes TAS 31 J*ointly Controlled Entities—Non-Monetary Contributions by Venturers.* The standard is effective for annual periods beginning on or after 1 January 2013.

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

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

- Amendments to TAS 1 – "*Presentation of Items of Other Comprehensive Income"* are effective for annual periods beginning on or after 1 July 2012. The amendments to TAS 1 change only the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time would be presented separately from items which will never be reclassified.
- TAS 12- *Income Taxes* contains the recovery of the issues related with deferred tax assets. The standard is effective for annual periods beginning on or after 1 January 2012.
- TAS 27- *Consolidated and Separate Financial Statement* includes the explanations of the existing accounting and disclosure orientations. The standard is effective for annual periods beginning on or after 1 January 2013.
- TAS 28- *Investments in Associates and Joint Ventures* contains some changes about the associates that joint controlled. The standard is effective for annual periods beginning on or after 1 January 2013.

3 Critical accounting estimates and judgments in applying accounting policies

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

The preparation of consolidated 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 consolidated 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 property
Note 10 – Reinsurance assets/liabilities
Note 11 – Financial assets
Note 12 – Loans and receivables
Note 17 – Insurance liabilities and reinsurance assets
Note 17 – Deferred acquisition costs
Note 19 – Trade and other payables, deferred income
Note 21 – Deferred income taxes
Note 23 – Provisions for other liabilities and charges

4 Management of insurance and financial risk

4.1 Management of insurance risk

Objective of managing risks arising from 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 Group'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.

Objective of managing risks arising from insurance contracts and policies used to minimize such risks

Insurance risk is defined as coverage for exposures that exhibit a possibility of financial loss due to applying inappropriate and insufficient insurance techniques. Main reasons of insurance risk exposure result from the risk selection and inaccurate calculation of insurance coverage, policy terms and fee or inaccurate calculation of coverage portion kept within the Group and coverage portion transfers to policyholders and transfer conditions.

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.

4 Management of insurance and financial risk *(continued)*

4.1 Management of insurance risk *(continued)*

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

Risk tolerance is determined by the Group's Board of Directors by considering the Group's long-term strategies, equity resources, potential returns and economical expectations, and it is presented by risk limitations. Authorization limitations during policy issuing include authorizations for risk acceptances granted based on geographical regions in relation to unacceptable special risks or pre-approved acceptable special risks, insurance coverage to agencies, district offices, technical offices, assistant general managers and top management in the policy issuance period and authorizations for claim payment granted to district offices, claim management administration, automobile claims administration and Claim Committee established by the managing director and assistant managing director in the claim payment period.

Whatsoever, risk acceptance is based on technical income expectations under the precautionary principle. In determining insurance coverage, policy terms and fee, these expectations are based accordingly.

It is essential that all the authorized personnel in charge of executing policy issuance transactions, which is the initial phase of insurance process, should ensure to gather or provide all the accurate and complete information to issue policies in order to obtain evidence on the acceptable risks that the Group can tolerate from the related insurance transactions. On the other hand, decision to be made on risk acceptance will be possible by transferring the coverage to the reinsurers and/or coinsurers and considering the terms of the insurance policy.

In order to avoid destructive losses over Group's financial structure, Group transfers the exceeding portion of risks assumed over the Group's risk tolerance and equity resources through treaties, facultative reinsurance contracts and coinsurance agreements to reinsurance and coinsurance companies. Insurance coverage and policy terms of reinsurance are determined by assessing the nature of each insurance branch.

Sensitivity to insurance risk

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

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

(Currency: Turkish Lira (TL))

4 Management of insurance and financial risk *(continued)*

4.1 Management of insurance risk *(continued)*

Insurance risk concentrations

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

	31 December 2011		
Branches	**Gross total claims liability (*)**	**Reinsurance share of total claims liability**	**Net total claims liability**
Motor vehicles	540,922,646	673,878	541,596,524
Motor vehicles liability	298,663,491	558,423	299,221,914
Fire and natural disasters	266,319,125	(22,970,194)	243,348,931
Health	226,791,131	(7,770,218)	219,020,913
General losses	196,083,353	(16,659,728)	179,423,625
Accident	25,718,073	(1,032,646)	24,685,427
Water vehicles	33,559,679	(11,511,553)	22,048,126
Transportation	20,984,441	136,762	21,121,203
General responsibility	18,947,827	(7,736,223)	11,211,604
Life	6,840,714	(17,342)	6,823,372
Air crafts	2,437,066	(133,885)	2,303,181
Financial losses	729,714	(29,728)	699,986
Breach of trust	537,516	(71)	537,445
Credit	421,747	(24,987)	396,760
Legal protection	86,324	(10)	86,314
Air crafts liability	58,077	--	58,077
Water vehicles liability	17,402	(459)	16,943
Total	**1,639,118,326**	**(66,517,981)**	**1,572,600,345**

	31 December 2010		
Branches	**Gross total claims liability (*)**	**Reinsurance share of total claims liability**	**Net total claims liability**
Motor vehicles	218,574,326	(6,135)	218,568,191
Health	157,115,362	(1,946,595)	155,168,767
Fire and natural disasters	181,154,519	(58,613,986)	122,540,533
Motor vehicles liability	117,067,645	(100,272)	116,967,373
General losses	98,047,458	(5,793,688)	92,253,770
Water vehicles	28,237,926	(4,280,459)	23,957,467
Transportation	13,877,171	(905,138)	12,972,033
Accident	9,351,150	(343,351)	9,007,799
General responsibility	7,577,175	(609,412)	6,967,763
Life	7,247,252	(1,740,931)	5,506,321
Financial losses	658,802	(169,332)	489,470
Air crafts	562,738	(168,207)	394,531
Breach of trust	157,872	(48)	157,824
Credit	121,830	--	121,830
Legal protection	36,493	(375)	36,118
Water vehicles liability	15,862	--	15,862
Total	**839,803,581**	**(74,677,929)**	**765,125,652**

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

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

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

4 Management of insurance and financial risk *(continued)*

4.2 Management of financial risk

Introduction and overview

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

- credit risk
- liquidity risk
- market risk

The Group 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 Group monitors its receivables by obtaining comprehensive information about the debtors and debtors' activities. The risk over investment portfolio is managed by measuring and reporting the market risk daily, reassessing the results validity and applying different scenario analyses. The Group'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 Group if counterparties (parties issued financial instrument, insurance companies, reinsurance companies and other debtors) having business relationship with the Group fails to meet its contractual obligations. The Group 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.

Reinsurance contracts are the most common method to manage insurance risk. This does not, however, discharge the Group's liability as the primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of the reinsurance contract.

Doubtful receivables are monitored quarterly.

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

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

(Currency: Turkish Lira (TL))

4 Management of insurance and financial risk *(continued)*

4.2 Management of financial risk *(continued)*

Credit risk *(continued)*

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

	31 December 2011	31 December 2010
Cash and cash equivalents *(Note 14)*	1,495,294,074	994,951,338
Receivables from main operations *(Note 12)*	790,518,246	656,260,707
Financial assets and financial investments with risks on policyholders *(Note 11)* (*)	494,389,144	742,086,068
Reinsurer share in provision for outstanding claims *(Note 10), (Note 17)*	78,960,689	87,606,721
Prepaid taxes and funds *(Note 19)*	15,727,306	9,033,843
Income accruals *(Note 12)*	7,164,002	10,543,319
Other receivables *(Note 12)*	2,079,390	3,240,230
Other current asset *(Note 12)*	1,309,656	906,459
Due from related parties *(Note 12)*	90,230	82,070
Total	**2,885,532,737**	**2,504,710,755**

(*) Equity shares amounting to TL 139,832,291 are not included (31 December 2010: TL 193,294,075).

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

	31 December 2010		31 December 2010	
	Gross amount	Provision	Gross amount	Provision
Not past due	526,941,428	--	388,614,663	--
Past due 0-30 days	109,524,668	--	131,840,083	--
Past due 31-60 days	15,394,908	--	11,582,766	--
Past due 61-90 days	19,541,397	--	5,891,818	--
More than 90 days (*)	117,321,814	(92,288,476)	115,642,417	(80,944,047)
Total (**)	**788,724,215**	**(92,288,476)**	**653,571,747**	**(80,944,047)**

(*)As per the 3 February 2005 dated and B.02.1.HM.O.SGM.0.3.1/01/05 numbered Circular issued by the Turkish Treasury, in case where subrogation is subject to claim/legal action, related subrogation amount is recognized as doubtful receivables and allowance for doubtful receivables is provided by the same amount in the financial statements. Related amounts are presented in “More than 90 days” line in the above table.

(**) In the consolidated financial statements, this amount also includes TL 59,009,229 (31 December 2010: TL 55,632,944) of untransferred amount collected by intermediaries and TL 39,723,166 (31 December 2010: TL 31,229,166) of subrogation and salvage receivables. Subrogation receivables having past over 4 months for individuals and 6 months for legal entities but not transferred to legal follow-up amounting to TL 4,649,888 (31 December 2010: TL 3,229,103) are excluded from the table.

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

	31 December 2011	31 December 2010
Provision for receivables from insurance operations at the beginning of the year	80,944,047	8,224,472
Collections during the period *(Note 47)*	(2,189,043)	(175,661)
Impairment losses provided during the period *(Note 47)*	6,517,762	2,254,117
Impairment losses provided for subrogation – salvage receivables during the period *(Note 47)*	7,015,710	404,840
The effect of group structure change	--	70,236,279
Provision for receivables from insurance operations at the end of the year	**92,288,476**	**80,944,047**

(Currency: Turkish Lira (TL))

4 Management insurance and financial risk *(continued)*

4.2 Management of financial risk *(continued)*

Credit risk *(continued*

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

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

Liquidity risk

Liquidity risk is the risk that the Group 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 Group's cash inflows and outflows in terms of maturity and volume.

The Group'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 Group 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 Group 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))

4 Management of insurance and financial risk *(continued)*

4.2 Management of financial risk *(continued)*

Management of the liquidity risk (continued)

Maturity distribution of monetary assets and liabilities:

31 December 2011	Carrying amount	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Unallocated
Assets							
Cash and cash equivalents	1,493,918,555	956,441,564	362,038,919	162,121,022	13,317,050	--	--
Financial assets and financial investments with risks on policyholders (*)	494,389,144	75,202,258	36,385,614	16,943,258	31,421,559	334,436,455	--
Receivables from main operations	790,518,246	151,940,827	291,793,107	214,927,489	125,433,057	6,423,766	--
Other receivables and current assets	19,116,352	16,734,712	1,029,032	803,918	548,690	--	--
Income accruals	7,164,002	--	6,063,976	--	1,100,026	--	--
Due from related parties	90,230	15,038	30,077	30,077	15,038	--	--
Total monetary assets	**2,805,196,529**	**1,200,334,399**	**697,340,725**	**394,825,764**	**171,835,420**	**340,860,221**	**--**
Liabilities							
Insurance technical provisions (**)	957,030,446	657,448,551	132,157,614	24,124,223	24,190,387	119,109,671	--
Payables arising from main operations	186,377,182	56,198,854	26,150,528	97,400,058	6,627,742	--	--
Provisions for other risks and expense accruals	55,075,730	--	12,710,182	--	--	42,365,548	--
Other liabilities	43,967,056	16,831,195	7,636,335	258,091	--	19,241,435	--
Provisions for taxes and other similar obligations	17,827,446	--	17,827,446	--	--	--	--
Due to related parties	140,108	124,614	--	--	--	15,494	--
Total monetary liabilities	**1,260,417,968**	**730,603,214**	**196,482,105**	**121,782,372**	**30,818,129**	**180,732,148**	**--**

(*) Equity shares amounting to TL 139,832,291 are not included.

(**) Provision for outstanding claims is presented as short term liabilities in the accompanying consolidated financial statements whereas maturity distribution is presented according to projected payment dated in the above table.

(Currency: Turkish Lira (TL))

4 Management of insurance and financial risk *(continued)*

4.2 Management of financial risk *(continued)*

Management of the liquidity risk (continued)

31 December 2010	Carrying amount	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Unallocated
Assets							
Cash and cash equivalents	992,361,647	879,268,856	92,884,118	10,478,298	9,730,375	--	--
Financial assets and financial investments with risks on policyholders (*)	742,086,068	96,996,795	6,035,121	7,914,157	90,340,800	540,799,195	--
Receivables from main operations	656,260,707	230,347,080	159,846,208	177,636,836	85,708,542	--	2,722,041
Other receivables and current assets	13,180,532	9,502,750	600,469	942,277	2,135,036	--	--
Income accruals	10,543,319	--	10,543,319	--	--	--	--
Due from related parties	82,070	13,678	27,357	27,357	13,678	--	--
Total monetary assets	**2,414,514,343**	**1,216,129,159**	**269,936,592**	**196,998,925**	**187,928,431**	**540,799,195**	**2,722,041**
Liabilities							
Insurance technical provisions (**)	695,600,408	446,080,288	110,073,352	20,092,933	20,148,041	99,205,794	--
Payables arising from main operations	137,524,121	61,902,341	13,000,244	54,136,773	8,321,184	--	163,579
Provisions for other risks and expense accruals	49,520,568	3,854,281	7,599,187	2,061,681	--	36,005,419	--
Provisions for taxes and other similar obligations	12,080,590	--	12,080,590	--	--	--	--
Other liabilities	11,404,337	7,272,393	2,472,175	133,957	--	--	1,525,812
Due to related parties	131,380	116,511	--	--	--	--	14,869
Total monetary liabilities	**906,261,404**	**519,225,814**	**145,225,548**	**76,425,344**	**28,469,225**	**135,211,213**	**1,704,260**

(*) Equity shares amounting to TL 47,631,769 are not included.

(**) Provision for outstanding claims is presented as short term liabilities in the accompanying consolidated financial statements whereas maturity distribution is presented according to projected payment dated in the above table.

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 Group'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.

(Currency: Turkish Lira (TL))

4 Management of insurance and financial risk *(continued)*

4.2 Management of financial risk *(continued)*

Market risk *(continued)*

Foreign currency risk

The Group 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 years, foreign currency assets and liabilities evaluated by the Central Bank of the Republic of Turkey's spot purchase rates and the differences arising from foreign currency rates are recorded as foreign exchange gain or loss in the statement of operations

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

31 December 2011	US Dollar	Euro	Other currencies	Total
Assets:				
Cash and cash equivalents	98,961,525	14,385,930	18,712,679	132,060,134
Financial assets and financial investments with risks on policyholders	22,762,704	14,524,036	--	37,286,740
Receivables from main operations	107,547,242	95,952,211	77,315,809	280,815,262
Total foreign currency assets	**229,271,471**	**124,862,177**	**96,028,488**	**450,162,136**
Liabilities:				
Payables arising from main operations	(65,120,359)	(32,246,077)	(1,131,685)	(98,498,121)
Insurance technical provisions (*)	(139,189,225)	(110,049,614)	(83,036,668)	(332,275,507)
Total foreign currency liabilities	**(204,309,584)**	**(142,295,691)**	**(84,168,353)**	**(430,773,628)**
Net on-balance sheet position	**24,961,887**	**(17,433,514)**	**11,860,135**	**19,388,508**

31 December 2010	US Dollar	Euro	Other currencies	Total
Assets:				
Cash and cash equivalents	65,443,995	28,678,165	10,216,052	104,338,212
Financial assets and financial investments with risks on policyholders	25,266,911	14,122,462	--	39,389,373
Receivables from main operations	94,198,376	68,497,160	78,905,920	241,601,456
Total foreign currency assets	**184,909,282**	**111,297,787**	**89,121,972**	**385,329,041**
Liabilities:				
Payables arising from main operations	(50,375,410)	(20,147,048)	(639,354)	(71,161,812)
Insurance technical provisions (*)	(97,336,828)	(71,701,314)	(21,542,951)	(190,581,093)
Total foreign currency liabilities	**(147,712,238)**	**(91,848,362)**	**(22,182,305)**	**(261,742,905)**
Net on-balance sheet position	**37,197,044**	**19,449,425**	**66,939,667**	**123,586,136**

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

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

(Currency: Turkish Lira (TL))

4 Management of insurance and financial risk *(continued)*

4.2 Management of financial risk *(continued)*

Market risk *(continued)*

Foreign currency rates used for the translation of foreign currency denominated assets and liabilities as at 31 December 2011 and 2010 are as follows:

	US Dollar	Euro
31 December 2011	1.8889	2.4438
31 December 2010	1.5460	2.0491

Exposure to foreign currency risk

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

	31 December 2011		31 December 2010	
	Profit or loss	Equity (*)	Profit or loss	Equity (*)
US Dollar	2,496,189	2,496,189	3,719,704	3,719,704
Euro	(1,743,351)	(1,743,351)	1,944,943	1,944,943
Others	1,186,013	1,186,013	6,693,967	6,693,967
Total, net	**1,938,851**	**1,938,851**	**12,358,614**	**12,358,614**

(*) Equity effect also includes consolidated statement of income 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.

(Currency: Turkish Lira (TL))

4 Management of insurance and financial risk *(continued)*

4.2 Management of financial risk *(continued)*

Market risk *(continued)*

Exposure to interest rate risk (continued)

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

	31 December 2011	31 December 2010
Financial assets:		
Financial assets with fixed interest rates:	*1,518,038,477*	*1,364,908,835*
Cash at banks *(Note 14)*	1,248,293,045	849,153,422
Cash deposited to insurance and reinsurance companies *(Note 12)*	112,615,871	109,513,053
Available for sale financial assets – Government bonds – TL *(Note 11)*	77,184,251	192,182,585
Available for sale financial assets – Private sector bonds *(Note 11)*	52,642,644	--
Financial assets held for trading – Eurobonds *(Note 11)*	22,762,704	21,874,336
Financial assets held for trading – reverse repos *(Note 11)*	2,567,331	660,752
Financial assets held for trading – Private sector bonds *(Note 11)*	1,972,631	2,111,631
Financial assets held for trading – Government bonds – TL *(Note 11)*	--	181,523,895
Financial assets held for trading – Government bonds– FC*(Note 11)*	--	7,889,161
Financial assets with variable interest rate:	*264,624,329*	*258,480,477*
Financial assets held for trading – Government bonds– TL *(Note 11)*	105,603,821	61,873,242
Held to maturity financial investments - Government bonds *(Note 11)*	85,608,329	130,409,487
Available for sale financial assets – Private debt securities – TL *(Note 11)*	32,776,004	-
Financial assets held for trading – Private sector bonds – TL *(Note 11)*	25,952,038	19,384,870
Available for sale financial assets – Government bonds – TL *(Note 11)*	14,684,137	46,812,878
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 2011 and 2010 of the floating rate non-trading financial assets and financial liabilities held at 31 December 2011 and 2010. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss		**Equity** [(*)]	
31 December 2011	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Financial assets held for trading	(488,921)	512,023	(488,921)	512,023
Available for sale financial assets	**-**	**-**	(4,228,420)	4,539,275
Total, net	**(488,921)**	**512,023**	**(4,717,341)**	**5,051,298**

	Profit or loss		**Equity** [(*)]	
31 December 2010	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Financial assets held for trading	(2,511,283)	2,603,590	(2,511,283)	2,603,590
Available for sale financial assets	-	-	(6,720,312)	7,041,522
Total, net	**(2,511,283)**	**2,603,590**	**(9,231,595)**	**9,645,112**

[(*)] Equity effect also includes profit or loss effect.

4 Management of insurance and financial risk *(continued)*

4.2 Management of financial risk *(continued)*

Market risk *(continued)*

Fair value information

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

The Group has classified its financial assets as held for trading, available for sale or held to maturity. 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 consolidated financial statements Held to maturity financial assets with a carrying amount of TL 85,608,329 (31 December 2010: TL 130,409,487) are measured at amortised cost and their fair value amounting to TL 86,251,546 (31 December 2010: TL 135,217,549) as at 31 December 2011.

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

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 Group. This distinction brings about a fair value measurement classification generally as follows:

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

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

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

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

(Currency: Turkish Lira (TL))

4 Management of insurance and financial risk *(continued)*

4.2 Management of financial risk *(continued)*

Market risk *(continued)*

Classification relevant to fair value information (continued)

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

	31 December 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Available for sale financial assets *(Note 11)* (*)	362,762,637	--	3,222,539	365,985,176
Financial assets held for trading *(Note 11)*	177,411,788	--	--	177,411,788
Total financial assets	**540,174,425**	**--**	**3,222,539**	**543,396,694**

	31 December 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Available for sale financial assets *(Note 11)* (*)	369,064,492	--	3,222,539	372,287,031
Financial assets held for trading *(Note 11)*	423,464,147	4,000,000	--	427,464,147
Total financial assets	**792,528,639**	**4,000,000**	**3,222,539**	**799,751,178**

(*) As at 31 December 2011, securities that are not publicly traded and the determination of fair values could not be obtained reliably amounting to TL 5,216,142 have been measured at cost (31 December 2010: TL 5,219,478).

Fair value sensitivity of the equities

Equity price risk is the risk that the fair values of equities decrease as a result of the changes in the levels of equity indices and the value of individual stocks.

The effect on income as a result of 10% change in the fair value of equity instruments held as held for trading financial assets (traded at İstanbul Stock Exchange) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows (excluding tax effect):

	31 December 2011		31 December 2010	
	Profit or loss	**Equity (*)**	**Profit or loss**	**Equity (*)**
Financial assets held for trading	621,262	621,262	164,039	164,039
Available for sale financial assets	--	(2,626,374)		(664,181)
Total, net	**621,262**	**(2,005,112)**	**164,039**	**(500,142)**

(*) Equity impact includes impact of change of conjectural interest rates on income statement.

(Currency: Turkish Lira (TL))

4 Management of insurance and financial risk *(continued)*

4.2 Management of financial risk *(continued)*

Gains and losses from financial assets

Gains and losses recognized in the consolidated statement of income, net:	31 December 2011	31 December 2010
Interest income from bank deposits	92,846,376	55,563,983
Foreign exchange gains	55,415,455	16,760,594
Income from debt securities classified as available-for-sale financial assets	30,543,671	32,214,159
Gains transferred from the statement of equity to the statement of income on disposal of available for sale financial assets (*Note 15)*	22,050,402	6,494,858
Income from derivative transactions	20,835,733	4,910,056
Income from associates	16,463,338	7,739,881
Interest income from debt securities classified as held to maturity financial investments	11,264,781	519,098
Income from equity shares classified as available-for-sale financial assets	7,895,516	2,633,990
Income from debt securities classified as held for trading financial assets	5,344,591	21,865,580
Income from equity shares	460,464	6,171,276
Interest income from repos	355,202	306,639
Income from subsidiaries	2,310	--
Other	2,631,249	4,819,682
Investment income	**266,109,088**	**159,999,796**
Loss from derivative transactions	(36,484,299)	(3,404,360)
Foreign exchange losses	(20,429,120)	(14,366,199)
Loss from valuation of financial assets	(19,967,729)	(1,019,812)
Loss from disposal of financial assets	(15,604,346)	(5,503,835)
Investment management expenses (including interest)	(678,809)	(2,365,957)
Investment expenses	**(93,164,303)**	**(26,660,163)**
Investment income, net	**172,944,785**	**133,339,633**

Gains and losses recognized in the consolidated statement of equity, net:	31 December 2011	31 December 2010
Fair value changes in available for sale financial assets *(Note 15)*	(26,532,700)	28,622,595
Resulted from equity accounted associate *(Not 15)*	(8,742,117)	1,233,321
Gains transferred from the statement of equity to the statement of income on disposal of available for sale financial assets (*Note 15)*	(22,050,402)	(6,494,858)
Effect of group structure change *(Note 15)*	--	9,059,005
Total	**(57,325,219)**	**32,420,063**

4 Management of insurance and financial risk *(continued)*

4.2 Management of financial risk *(continued)*

Capital management

The Company's capital management policies include the following:

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

In accordance with the "Communiqué on Measurement and Assessment of Capital Adequacy for Insurance, Reinsurance and Individual Pension Companies" issued by Turkish Treasury on 19 January 2008 dated and 26761 numbered; the Company measured its minimum capital requirement as TL 287,755,178. As at 31 December 2011 capital deficiency of the Company is amounting to TL 112,665,252 according to the communiqué.

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

The capital adequacy of the Company's subsidiary, Anadolu Sigorta, is TL 537,382,440 according to the calculations based on the unconsolidated financial statements of Anadolu Sigorta as at 31 December 2011. As at 31 December 2011, the capital amount of Anadolu Sigorta presented in its unconsolidated financial statements are above the minimum capital requirement amounts calculated according to the communiqué.

5 Segment reporting

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

The Group 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.

(Currency: Turkish Lira (TL))

6 Tangible assets

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

	1 January 2011	Additions	Foreign currency translation effects (*)	Disposals	31 December 2011
Cost:					
Investment properties *(Note 7)*	48,325,615	--	--	--	48,325,615
Owner occupied properties	37,812,594	--	--	(67,462)	37,745,132
Machinery and equipment	24,381,873	1,296,468	--	(21,245)	25,657,096
Furniture and fixtures	11,251,611	1,046,925	42,805	(7,217)	12,334,124
Motor vehicles	2,050,561	453,624	29,084	(224,197)	2,309,072
Other tangible assets (including leasehold improvements)	3,533,374	250,195	--	--	3,783,569
Leased assets	4,339,065	--	--	--	4,339,065
	131,694,693	**3,047,212**	**71,889**	**(320,121)**	**134,493,673**
Accumulated depreciation:					
Investment properties *(Note 7)*	19,390,864	966,510	--	--	20,357,374
Owner occupied properties	12,685,532	754,904	--	(36,561)	13,403,875
Machinery and equipment	14,485,613	3,244,378	--	(8,509)	17,721,482
Furniture and fixtures	9,451,475	756,024	39,192	(6,258)	10,240,433
Motor vehicles	792,681	413,126	20,195	(172,739)	1,053,263
Other tangible assets (including leasehold improvements)	2,657,125	308,277	--	--	2,965,402
Leased assets	4,180,288	119,779	--	--	4,300,067
	63,643,578	**6,562,998**	**59,387**	**(224,067)**	**70,041,896**
Carrying amounts	**68,051,115**				**64,451,777**

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

(Currency: Turkish Lira (TL))

6 Tangible assets *(continued)*

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

	1 January 2010	Additions	Effect of group structure change (*)	Foreign currency translation effects (**)	Disposals	31 December 2010
Cost:						
Investment properties *(Note 7)*	41,342,839	--	6,982,776	--	--	48,325,615
Owner occupied properties	31,392,945	--	8,605,081	--	(2,185,432)	37,812,594
Machinery and equipment	--	485,848	23,896,025	--	--	24,381,873
Furniture and fixtures	2,060,044	532,519	8,674,554	4,697	(20,203)	11,251,611
Motor vehicles	766,102	239,177	1,041,864	3,418	--	2,050,561
Other tangible assets (including leasehold improvements)	--	96,002	3,437,372	--	--	3,533,374
Leased assets	--	--	4,339,065	--	--	4,339,065
	75,561,930	**1,353,546**	**56,976,737**	**8,115**	**(2,205,635)**	**131,694,693**
Accumulated depreciation:						
Investment properties *(Note 7)*	15,404,423	861,768	3,124,673	--	--	19,390,864
Owner occupied properties	10,054,341	659,958	1,971,233	--	--	12,685,532
Machinery and equipment	--	764,677	13,720,936	--	--	14,485,613
Furniture and fixtures	1,425,425	400,442	7,641,309	4,502	(20,203)	9,451,475
Motor vehicles	153,153	212,628	424,867	2,033	--	792,681
Other tangible assets (including leasehold improvements)	--	70,421	2,586,704	--	--	2,657,125
Leased assets	--	51,654	4,128,634	--	--	4,180,288
	27,037,342	**3,021,548**	**33,598,356**	**6,535**	**(20,203)**	**63,643,578**
Carrying amounts	**48,524,588**					**68,051,115**

(*) Consolidation effect of Anadolu Sigorta.

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

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

There is not any revaluation on tangible assets.

As at 31 December 2011, carrying amount and fair value of the Group's operating center building located in Nişantaşı amounting TL 20,082,883 (31 December 2010: TL 20,710,743) and TL 63,251,705, respectively. Fair value is determined by expert report obtained at 31 December 2011.

(Currency: Turkish Lira (TL))

7 Investment properties

As at 31 December 2011, inflation adjusted cost and carrying amounts of the Group's investment properties are amounting to TL 48,325,615 (31 December 2010: TL 48,325,615) and TL 27,968,241 (31 December 2010: TL 28,934,751), respectively.

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

	31 December 2011 Carrying amount	31 December 2010 Carrying amount	Date of expertise report	Value of expertise report
Operating Center Rental Offices	17,499,404	18,046,494	31 December 2011	73,787,990
Suadiye Fitness Center	4,180,076	4,355,487	31 December 2011	11,163,399
Tunaman Garage	1,826,992	1,894,248	31 December 2011	50,358,074
Villa Office Block	778,235	815,333	31 December 2011	15,602,314
Other Buildings	3,683,534	3,823,189	31 December 2011	37,505,463
Carrying amounts	**27,968,241**	**28,934,751**		**188,417,240**

For the year ended 31 December 2011, the Group has rental income from investment properties amounting to TL 9,781,804 (31 December 2010: TL 8,293,208).

8 Intangible assets

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

	1 January 2011	Additions	Foreign currency translation effects (*)	Disposals	31 December 2011
Cost:					
Other intangible assets	13,485,907	4,911,454	209,706	--	18,607,067
Goodwill	16,250,000	--	--	--	16,250,000
Advances given for intangible assets	5,691,886	8,644,542	--	--	14,336,428
	35,427,793	**13,555,996**	**209,706**	**--**	**49,193,495**
Accumulated amortization:					
Other intangible assets	8,600,061	3,550,642	195,791	--	12,346,494
	8,600,061	**3,550,642**	**195,791**	**--**	**12,346,494**
Carrying amounts	**26,827,732**				**36,847,001**

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

(Currency: Turkish Lira (TL))

8 Intangible assets *(continued)*

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

	1 January 2010	Additions	Effect of group structure change (*)	Foreign currency translation effects (**)	Disposals	31 December 2010
Cost:						
Rights	1,419,973	1,113465	10,928,009	24,460	--	13,485,907
Goodwill	--	--	16,250,000	--	--	16,250,000
Advances given for intangible assets	--	1,619,217	4,072,669	--	--	5,691,886
	1,419,973	**2,732,682**	**31,250,678**	**24,460**	**--**	**35,427,793**
Accumulated amortization:						
Other intangible assets	537,712	954,397	7,086,029	21,923	--	8,600,061
	537,712	**954,397**	**7,086,029**	**21,923**	**--**	**8,600,061**
Carrying amounts	**882,261**					**26,827,732**

(*) Consolidation effect of Anadolu Sigorta.

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

9 Investments in associates

	31 December 2011		31 December 2010	
	Carrying value	Participation rate %	Carrying value	Participation rate %
Anadolu Hayat	91,000,891	21.00	91,157,184	20.00
Associates, net	**91,000,891**		**91,157,184**	
Miltaş Turizm Inşaat Ticaret AŞ	746,207	77.00	746,207	77.00
Subsidiaries, net	**746,207**		**746,207**	
Total financial assets	**91,747,098**		**91,903,391**	

Name	Total assets	Shareholders' equity	Retained earnings	Profit for the year	Audited	Period
Subsidiaries:						
Miltaş Turizm Inşaat Ticaret AŞ	3,845,885	3,502,622	1,896	1,816	Not audited	31 December 2011
Associates:						
Anadolu Hayat (consolidated)	5,650,909,867	433,337,577	9,493,958	62,920,800	Audited	31 December 2011

TL 11,955,358 of income is obtained from associates through equity accounted consolidation method (31 December 2010: TL 6,945,346).

(Currency: Turkish Lira (TL))

10 Reinsurance assets and liabilities

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

Reinsurance assets	**31 December 2011**	**31 December 2010**
Reserve for unearned premiums, ceded *(Note 17)*	154,719,274	103,318,064
Provision for outstanding claims, ceded *(Note 4.2)*, *(Note 17)*	78,960,689	87,606,721
Cash deposited to reinsurance companies	75,250,975	55,835,145
Receivables from reinsurance companies *(Note 12)*	51,045,506	51,547,283
Reinsurers share in the provision for subrogation and salvage receivables	209,801	17,109
Commission income accrual from reinsurers	--	784,260
Total	**360,186,245**	**299,108,852**

There are no impairment losses recognised for reinsurance assets.

Reinsurance liabilities	**31 December 2011**	**31 December 2010**
Payables to the reinsurers related to premiums written *(Note 19)*	123,369,485	85,979,769
Deferred commission income *(Note19)*	22,962,672	15,731,429
Cash deposited by reinsurance companies	1,856,150	1,742,574
Commission payables to the reinsurers related to written premiums *(Note 23)*	--	2,140,643
Total	**148,188,307**	**105,594,415**

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

	31 December 2011	**31 December 2010**
Premiums ceded during the period *(Note 17)*	(398,108,195)	(146,305,145)
Reserve for unearned premiums, ceded at the beginning of the period *(Note 17)*	(103,318,064)	(3,016,194)
Reserve for unearned premiums, ceded at the end of the period *(Note 17)*	154,719,274	103,318,064
Effect of group structure change *(Note 17)*	--	(99,816,905)
Premiums earned, ceded *(Note 17)*	**(346,706,985)**	**(145,820,180)**
Claims paid, ceded during the period *(Note 17)*	66,517,981	74,677,929
Provision for outstanding claims, ceded at the beginning of the period *(Note 17)*	(87,606,721)	(80,867,401)
Provision for outstanding claims, ceded at the end of the period *(Note 17)*	78,960,689	87,606,721
Effect of group structure change *(Note 17)*	--	(53,301,656)
Claims incurred, ceded *(Note 17)*	**57,871,949**	**28,115,593**
Commission income accrued from reinsurers during the period *(Note 32)*	53,628,348	6,921,386
Deferred commission income at the beginning of the period *(Note 19)*	15,731,429	718,390
Deferred commission income at the end of the period *(Note 19)*	(22,962,672)	(15,731,429)
Effect of group structure change *(Note 17)*	--	14,761,556
Commission income earned from reinsurers *(Note 32)*	**46,397,105**	**6,669,903**
Changes in provision for outstanding claims, reinsurers' share *(Note 17)*	**6,059,519**	**6,733,129**
Total, net	**(236,330,264)**	**(104,301,556)**

(Currency: Turkish Lira (TL))

11 Financial assets

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

	31 December 2011	31 December 2010
Available for sale financial assets	376,998,930	383,304,121
Financial assets held for trading	177,411,788	427,464,147
Held to maturity financial assets	85,608,329	130,409,487
Impairment loss on available for sale financial assets	(5,797,612)	(5,797,612)
Total	**634,221,435**	**935,380,143**

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

	31 December 2011			
	Face value	**Cost**	**Fair value**	**Carrying value**
Debt instruments:				
Private sector bonds - TL	27,630,284	27,711,448	27,924,669	27,924,669
Eurobonds issued by private sector	12,550,000	19,280,853	22,762,704	22,762,704
Government bonds – TL	14,912,608	14,905,400	14,684,137	14,684,137
Other	2,645,151	2,565,151	2,567,331	2,567,331
		64,462,852	**67,938,841**	**67,938,841**
Non-fixed income financial assets:				
Equity shares		47,073,042	36,837,693	36,837,693
Investment funds		64,082,791	72,635,254	72,635,254
		111,155,833	**109,472,947**	**109,472,947**
Total financial assets held for trading		**175,618,685**	**177,411,788**	**177,411,788**

	31 December 2010			
	Face value	**Cost**	**Fair value**	**Carrying value**
Debt instruments:				
Government bonds – TL	241,142,829	220,051,663	228,336,773	228,336,773
Government bonds – FC	5,000,000	5,926,077	7,889,161	7,889,161
Private sector bonds – TL	18,730,284	18,810,698	21,496,501	21,496,501
Eurobonds issued by Turkish Government	12,050,000	19,572,107	21,874,336	21,874,336
Other	660,645	660,645	660,752	660,752
		265,021,190	**280,257,523**	**280,257,523**
Non-fixed income financial assets:				
Equity shares		71,061,276	69,843,393	69,843,393
Investment funds and TurkDEX-ISE 30 Index future contracts		56,261,674	77,363,231	77,363,231
		127,322,950	**147,206,624**	**147,206,624**
Total financial assets held for trading		**392,344,140**	**427,464,147**	**427,464,147**

(Currency: Turkish Lira (TL))

11 Financial assets *(continued)*

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

	31 December 2011			
	Face value	**Cost**	**Fair value**	**Carrying value**
Debt instruments:				
Government bonds – TL	175,274,876	180,051,524	182,782,072	182,782,072
Private sector bonds – TL	87,962,338	82,421,138	85,418,648	85,418,648
		262,472,662	**268,206,720**	**268,206,720**
Non-fixed income financial assets:				
Equity shares	46,468,053	100,971,725	108,792,210	108,792,210
Impairment loss on equity shares	--	--	(5,797,612)	(5,797,612)
		100,971,725	**102,994,598**	**102,994,598**
Total available-for-sale financial assets		**363,444,387**	**371,201,318**	**371,201,318**

	31 December 2010			
	Face value	**Cost**	**Fair value**	**Carrying value**
Debt instruments:				
Government bonds – TL	205,092,254	215,289,270	254,055,827	254,055,827
	205,092,254	**215,289,270**	**254,055,827**	**254,055,827**
Non-fixed income financial assets:				
Equity shares	60,619,334	80,797,131	129,248,294	129,248,294
Impairment loss on equity shares	--	--	(5,797,612)	(5,797,612)
	60,619,334	**80,797,131**	**123,450,682**	**123,450,682**
Total available-for-sale financial assets		**296,086,401**	**377,506,509**	**377,506,509**

All debt instruments presented above are traded in active markets. As at 31 December 2011, equity shares classified as available for sale financial assets with a carrying amount of TL 8,438,681 are not publicly traded (31 December 2010: TL 8,442,018).

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

There is no financial asset that is overdue but not impaired among the Group's financial investments portfolio. As at 31 December 2011, TL 5,797,612 of impairment loss is recognised for equity shares classified as available for sale in the accompanying consolidated financial statements (31 December 2010: TL 5,797,612).

Value increases in financial assets including equity shares classified as available for sale financial assets and associates for the last 3 years (including tax effects, excluding non-controlling interest):

Year	**Change in value increase / (decrease)**	**Total increase / (decrease) in value**
2011	(57,325,219)	4,457,325
2010	32,420,063 (*)	61,782,544
2009	24,779,587	29,362,481

(*) The effect of group structure change amounting to TL 9,059,005 is included.

(Currency: Turkish Lira (TL))

11 Financial assets *(continued)*

As at 31 December 2011 and 2010, the Group's financial assets held to maturity are as follows

	31 December 2011			
	Face value	**Cost**	**Fair value**	**Carrying value**
Debt instruments:				
Government bonds - TL	73,661,976	78,310,424	86,251,546	85,608,329
Total financial assets held to maturity	**73,661,976**	**78,310,424**	**86,251,546**	**85,608,329**

	31 December 2010			
	Face value	**Cost**	**Fair value**	**Carrying value**
Debt instruments:				
Government bonds - TL	123,261,899	125,212,330	135,217,549	130,409,487
Total financial assets held to maturity	**123,261,899**	**125,212,330**	**135,217,549**	**130,409,487**

Movement of the financial assets during the period is presented below:

	31 December 2011			
	Trading	**Available for sale**	**Held to maturity**	**Total**
Balance at the beginning of the period	**427,464,147**	**377,506,509**	**130,409,487**	**935,380,143**
Unrealized exchange differences on financial assets	5,554,663	--	--	5,554,663
Acquisitions during the period	360,434,099	662,935,401	19,999,997	1,043,369,497
Disposals (sale and redemption)	(596,237,436)	(638,251,886)	(66,901,903)	(1,301,391,225)
Change in the fair value of financial assets	(20,126,042)	(50,532,845)	--	(70,658,887)
Change in amortized cost of the financial assets	--	9,065,071	2,100,748	11,165,819
Bonus shares acquired	322,357	10,479,068	--	10,801,425
Balance at the end of the period	**177,411,788**	**371,201,318**	**85,608,329**	**634,221,435**

	31 December 2010			
	Trading	**Available for sale**	**Held to maturity**	**Total**
Balance at the beginning of the period	**269,256,150**	**241,336,226**	**--**	**510,592,376**
Unrealized exchange differences on financial assets	3,138,465	--	--	3,138,465
Acquisitions during the period	566,033,565	95,968,654	481,683	662,483,902
Disposals (sale and redemption)	(593,824,503)	(56,582,532)	--	(650,407,035)
Effect of group structure change (*)	203,132,752	63,575,820	128,005,731	394,714,303
Change in the fair value of financial assets	(20,378,900)	15,611,842	--	(4,767,058)
Change in amortized cost of the financial assets	--	16,386,248	1,922,073	18,308,321
Bonus shares acquired	106,618	1,210,251	--	1,316,869
Balance at the end of the period	**427,464,147**	**377,506,509**	**130,409,487**	**935,380,143**

(*) Consolidation effect of Anadolu Sigorta.

(Currency: Turkish Lira (TL))

11 Financial assets *(continued)*

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

	31 December 2011			
	Face value	**Cost**	**Fair value**	**Carrying value**
Available for sale financial assets - Private sector bonds	74,111,238	68,570,058	71,419,671	71,419,671
Financial assets held for trading – Investment funds		64,082,791	72,635,254	72,635,254
Available for sale financial assets – Equity shares		28,970,994	40,564,575	40,564,575
Financial assets held for trading – Eurobonds	5,000,000	7,775,839	9,393,568	9,393,568
Total		**169,399,682**	**194,013,068**	**194,013,068**

	31 December 2010		
	Cost	**Fair value**	**Carrying value**
Financial assets held for trading – Equity shares	507,718	522,000	522,000
Financial assets held for trading – Investment funds	56,261,674	76,808,766	76,808,766
Available for sale financial assets – Equity shares	26,565,931	53,250,208	53,250,208
Total	**83,335,323**	**130,580,974**	**130,580,974**

Financial assets blocked in favour of the Turkish Treasury as a guarantee for the insurance activities are as follows.

	31 December 2011			
	Face value	**Cost**	**Fair value**	**Carrying value**
Held to maturity financial assets *(Note 17)*	31,668,825	34,966,543	35,233,098	36,252,781
Total	**31,668,825**	**34,966,543**	**35,233,098**	**36,252,781**

	31 December 2010			
	Face value	**Cost**	**Fair value**	**Carrying value**
Held to maturity financial assets *(Note 17)*	60,866,200	61,061,377	62,612,055	62,654,860
Total	**60,866,200**	**61,061,377**	**62,612,055**	**62,654,860**

(Currency: Turkish Lira (TL))

12 Loans and receivables

	31 December 2011	31 December 2010
Receivables from main operations *(Note 4.2)*	790,518,246	656,260,707
Prepaid taxes and funds *(Note 19), (Note 4.2)*	15,727,306	9,033,843
Income accruals (*Note 4.2)*	7,164,002	10,543,319
Other receivables *(Note 4.2)*	2,079,390	3,240,230
Other current assets *(Note 4.2)*	1,309,656	906,459
Receivables from related parties *(Note 4.2)*	90,230	82,070
Total	**816,888,830**	**680,066,628**
Short-term receivables	816,888,830	680,066,628
Long and medium-term receivables	--	--
Total	**816,888,830**	**680,066,628**

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

	31 December 2011	31 December 2010
Receivables from insurance companies	61,503,208	30,228,129
Receivables from agencies, brokers and intermediaries	58,389,853	48,844,050
Receivables from reinsurance companies *(Note 10)*	51,045,506	51,547,283
Total receivables from reinsurance operations, net	**170,938,567**	**130,619,462**
Receivables from agencies, brokers and intermediaries	445,019,795	364,975,103
Salvage and subrogation receivables *(Note 2.21)*	39,723,166	31,229,166
Receivables from policyholders	26,870,735	23,153,026
Total receivables from insurance operations	**511,613,696**	**419,357,295**
Cash deposited to insurance and reinsurance companies *(Note 4.2)*	112,655,871	109,513,053
Provisions for receivables from insurance operations–subrogation receivables *(Note 2.21)*	(4,649,888)	(3,229,103)
Doubtful receivables from main operations – premium receivables	32,614,226	28,285,507
Provisions for doubtful receivables from main operations – premium receivables *(Note 4.2)*	(32,614,226)	(28,285,507)
Doubtful receivables from insurance operations – subrogation receivables	59,674,250	52,658,540
Provisions for doubtful receivables from insurance operations – subrogation receivables *(Note 4.2)*	(59,674,250)	(52,658,540)
Receivables from main operations	**790,518,246**	**656,260,707**

As at 31 December 2011 and 2010, the details of mortgages and other guarantees for the Group's receivables are presented below:

	31 December 2011	31 December 2010
Mortgage notes	75,449,128	75,663,678
Letters of guarantees	56,567,990	45,215,789
Other guarantees	8,460,660	6,455,753
Government bonds and treasury bills	3,055,221	3,080,618
Total	**143,532,999**	**130,415,838**

(Currency: Turkish Lira (TL))

12 Loans and receivables *(continued)*

Provisions for overdue receivables and receivables not due yet

a) Receivables under legal or administrative follow up (due): TL 32,614,226 (31 December 2010: TL 28,285,507).

b) Provision for subrogation receivables: TL 64,324,138 (31 December 2010: TL 55,887,643).

The Group's receivables from and payables to shareholders, associates and subsidiaries are detailed in *Note 45.*

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*.

13 Derivative financial instruments

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

14 Cash and cash equivalents

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

	31 December 2011		31 December 2010	
	At the end of the period	At the beginning of the period	At the end of the period	At the beginning of the period
Cash on hand	75,156	97,363	97,363	15,606
Bank deposits	1,273,591,713	869,200,967	869,200,967	583,868,745
Cheques received	--	--	--	12,488
Cheques given and payment orders	(1,450,675)	(2,687,054)	(2,687,054)	--
Other cash and cash equivalents (*)	221,702,361	125,750,371	125,750,371	--
Cash and cash equivalents in the balance sheet	**1,493,918,555**	**992,361,647**	**992,361,647**	**583,896,839**
Bank deposits – blocked (**)	(130,703,265)	(81,657,906)	(81,657,906)	(23,000)
Time deposits with maturities longer than 3 months	(280,703,685)	--	--	--
Interest accruals on banks deposits	(6,104,867)	(4,447,486)	(4,447,486)	(5,078,778)
Cash and cash equivalents in the statement of cash flows	**1,076,406,738**	**906,256,255**	**906,256,255**	**578,795,061**

(*) As at 31 December 2011 and 2010, other cash and cash equivalents comprise credit card receivables from banks.

(**) As at 31 December 2011, cash collateral amounting to TL 130,702,765 kept in favour of the Turkish Treasury as a guarantee for the Group's insurance activities (31 December 2010: TL 81,634,906) *(Note 17).*

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

	31 December 2011	31 December 2010
Foreign currency denominated bank deposits		
- time deposits	115,603,858	89,271,749
- demand deposits	16,422,842	15,040,222
Bank deposits in TL		
- time deposits	1,132,689,187	759,881,673
- demand deposits	8,875,826	5,007,323
Bank deposits	**1,273,591,713**	**869,200,967**

(Currency: Turkish Lira (TL))

15 Equity

Paid in Capital

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

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

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

The Company has 1,000 registered and bonus founder shares. The only right of Founder Shares is getting dividend. Founder Shares might be purchased back by the Company according to the decision of the General Assembly after the 5^{th} 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.

Consolidation per equity method of accounting

As at 31 December 2009, the Company owns 21.78% of Anadolu Sigorta and this associate was consolidated in the prior year consolidated financial statements by using the equity method of accounting. The Company has obtained control over Anadolu Sigorta as at 30 September 2010; therefore, the financial statements of Anadolu Sigorta are included in the consolidated financial statements in the current period.

The Company has accounted its share in the equity of Anadolu Sigorta as retained earnings in the prior year consolidated financial statements rather than presented each equity item in the related equity line according to equity method of accounting to consolidate. These reclassifications have been corrected by restating opening balances of the consolidated financial statements as at 31 December 2009 as presented in Note 2.1.6.

The Group owns 21% of Anadolu Hayat and this associate has been consolidated in the accompanying consolidated financial statements by using the equity method of accounting.

(Currency: Turkish Lira (TL))

15 Equity *(continued)*

Legal reserves

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

The movements of legal reserves are as follows:

	31 December 2011	31 December 2010
Legal reserves at the beginning of the period	**65,623,606**	**38,222,824**
Transfer from profit	8,369,987	13,286,039
Effect of group structure change	--	14,114,743
Legal reserves at the end of the period	**73,993,593**	**65,623,606**

As at 31 December 2011 and 2010; the details of "Other reserves and retained earnings" are as follows:

	31 December 2011	31 December 2010
Other profit reserves	25,325,325	25,325,325
Extraordinary reserves	14,084,730	5,656,554
Other capital reserves	4,631,519	--
Transactions under common control	(71,060,049)	(71,060,049)
Total	**(27,018,475)**	**(40,078,170)**

Other capital reserves

In accordance with tax legislation, 75% of profits from sales of participation shares and real states included in the assets of companies is exempt from corporate tax provided that it is classified under a special fund for full five years. The exempt gains cannot be transferred to another account other than a capital increase or cannot be withdrawn from the entity for five years. As of 31 December 2011, exception of gain on sale of fixed asset and subsidiary amounting to TL 4,631,519 was classified in other capital reserves account. Tax exempt gain from real estate sale amounting to TL 2,073,977 as at 31 December 2009 is used in capital increase in 2010 *(Note 2.13).*

Extraordinary Reserves

The movement of extraordinary reserves is as follows:

	31 December 2011	31 December 2010
Extraordinary reserves at the beginning of the period	**5,656,554**	**3,030,614**
Transfer to share capital	--	(270,217)
Transfer from profit	8,428,176	1,362,401
Effect of group structure change	--	606,584
Other	--	927,172
Extraordinary reserves at the end of the period	**14,084,730**	**5,656,554**

(Currency: Turkish Lira (TL))

15 Equity *(continued)*

Transactions under common control

The Company purchased İş Bankası's share in Anadolu Sigorta with a nominal value of TL 177,650,110 and a share of 35.53% with a share price of TL 248,710,154 as at 30 September 2010. The acquired subsidiary, Anadolu Sigorta could be treated as an integrated operation of the Company by nature or by transfer of knowledge, were under common control with the Company since the beginning of their operations. The acquisition of this entity being under common control is accounted for using book values, where in its consolidated financial statements the acquirer, is permitted, but not required, to restate its comparatives as if the combination had been in existence throughout the reporting periods presented. This application is based on the management judgment that this treatment is the best way to present the economic substance of the transaction since the transaction is moving the shares of one party from one part of the group to another, there is no independent third party involvement and in particular the purchase price is not determined on an arm's length basis. Management decided not to restate its comparative information. Excess of cash paid over net assets amounting to TL (71,060,049) is recognised in "Transactions under common control" directly in equity *(Note 44)*.

Other profit reserves

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

Movements of this amount are presented below:

	31 December 2011	31 December 2010
Other profit reserves at the beginning of the period	**25,325,325**	**162,255,186**
Transfer to share capital	--	(137,655,806)
Transfer to other reserves	--	(3,682,705)
Effect of group structure change	--	4,408,650
Other profit reserves at the end of the period	**25,325,325**	**25,325,325**

(Currency: Turkish Lira (TL))

15 Equity *(continued)*

Statutory Reserves

After the allocation of first legal reserves and first dividend to shareholders, reserve for natural disasters and catastrophe might be allocated, if deemed necessary, based on the suggestion of the Board of Directors and decision of the General Assembly. As at 31 December 2011, total amount of statutory reserves allocated as mentioned method is TL 44,333,069 (31 December 2010: TL 119,566,517) and the Group allocated TL 14,766,552 from profit of 2010 to natural disasters and catastrophe reserve and TL 90,000,000 is used in capital increase.

Foreign currency translation differences

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

Valuation of financial assets

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

	31 December 2011	31 December 2010
Fair value reserves at the beginning of the period	**61,782,544**	**29,362,481**
Change in the fair value during the period *(Note 4.2)*	(26,532,700)	28,622,595
Resulted from equity accounted associate *(Note 4.2)*	(8,742,117)	1,233,321
Effect of group structure change *(Note 4.2)*	--	9,059,005
Net gains transferred to the statement of income *(Note 4.2)*	(22,050,402)	(6,494,858)
Fair value reserves at the end of the period	**4,457,325**	**61,782,544**

16 Other reserves and equity component of DPF

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

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

(Currency: Turkish Lira (TL))

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 Group. Estimation of the insurance contract liabilities contains several ambiguities by nature. The Group makes calculation of the related insurance technical provisions accordance with the Insurance Legislation and reflects them into consolidated financial statements as mentioned in Note 2 – *Summary of significant accounting policies*.

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

	31 December 2011	**31 December 2010**
Reserve for unearned premiums, gross	1,379,683,883	1,030,181,109
Reserve for unearned premiums, ceded *(Note 10)*	(154,719,274)	(103,318,064)
Reserve for unearned premiums, SSI share	(14,079,233)	--
Reserves for unearned premiums, net	**1,210,885,376**	**926,863,045**
Provision for outstanding claims, gross	1,035,991,135	783,207,129
Provision for outstanding claims, ceded *(Note 10)*	(78,960,689)	(87,606,721)
Provision for outstanding claims, net	**957,030,446**	**695,600,408**
Provision for unexpired risks, gross	108,335,903	21,827,932
Provision for unexpired risks, ceded	(14,732,490)	8,672,971
Reserve for unexpired risks, net	**93,603,413**	**13,154,961**
Equalization provision, net	34,889,558	32,642,498
Other provisions	5,413,605	5,413,605
Other technical provisions, net	**40,303,163**	**38,056,103**
Life mathematical provisions	**1,377,701**	**1,192,786**
Total technical provisions, net	**2,303,200,099**	**1,674,867,303**
Short-term	2,262,896,936	1,636,811,200
Medium and long-term	40,303,163	38,056,103
Total technical provisions, net	**2,303,200,099**	**1,674,867,303**

(*) Net losses (after reinsurance) resulted from earthquake occurred in 2011 amounting to TL 21,450,751 are decreased from prior periods' equalization provision based on the regulation.

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

Reserve for unearned premiums	**31 December 2011**		
	Gross	**Ceded (*)**	**Net**
Reserve for unearned premiums at the beginning of the period	1,030,181,109	(103,318,064)	926,863,045
Premiums written during the period	2,828,660,154	(422,082,338)	2,406,577,816
Premiums earned during the period	(2,479,157,380)	356,601,895	(2,122,555,485)
Reserve for unearned premiums at the end of the period	**1,379,683,883**	**(168,798,507)**	**1,210,885,376**

(*) Amount of TL 23,974,143 out of ceded portion of premiums written during the period amounting to TL 422,082,338 and amount of TL 9,894,910 out of ceded premiums earned during the period amounting to TL 356,601,895 are ceded to SSI for the year ended 31 December 2011.

(Currency: Turkish Lira (TL))

17 Insurance liabilities and reinsurance assets *(continued)*

Reserve for unearned premiums	**31 December 2010**		
	Gross	**Ceded**	**Net**
Reserve for unearned premiums at the beginning of the period	353,362,029	(3,016,194)	350,345,835
Premiums written during the period	1,263,207,674	(146,305,145)	1,116,902,529
Premiums earned during the period	(1,218,633,234)	145,820,180	(1,072,813,054)
Effect of group structure change	632,244,640	(99,816,905)	532,427,735
Reserve for unearned premiums at the end of the period	**1,030,181,109**	**(103,318,064)**	**926,863,045**

Provision for outstanding claims	**31 December 2011**		
	Gross	**Ceded**	**Net**
Provision for outstanding claims at the beginning of the period	783,207,129	(87,606,721)	695,600,408
Claims reported during the period and changes in the estimations of provisions for outstanding claims provided at the beginning of the period	1,891,902,332	(57,871,949)	1,834,030,383
Claims paid during the period	(1,639,118,326)	66,517,981	(1,572,600,345)
Provision for outstanding claims at the end of the period	**1,035,991,135**	**(78,960,689)**	**957,030,446**

Provision for outstanding claims	**31 December 2010**		
	Gross	**Ceded**	**Net**
Provision for outstanding claims at the beginning of the period	407,973,738	(80,867,401)	327,106,337
Claims reported during the period and changes in the estimations of provisions for outstanding claims provided at the beginning of the period	795,855,882	(28,115,593)	767,740,289
Claims paid during the period	(839,803,581)	74,677,929	(765,125,652)
Effect of group structure change	419,181,090	(53,301,656)	365,879,434
Provision for outstanding claims at the end of the period	**783,207,129**	**(87,606,721)**	**695,600,408**

(Currency: Turkish Lira (TL))

17 Insurance liabilities and reinsurance assets *(continued)*

Total amount of guarantee that should be placed by the Group 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. Amount of guarantee presented below belongs to Anadolu Sigorta:

	31 December 2011		
	Should be placed (**)	**Placed (*)**	**Carrying amount**
Non-life:			
Bank deposits *(Note 14)*		130,702,765	130,702,765
Financial assets (*) *(Note 11)*		35,233,098	36,252,781
Total	**157,350,562**	**165,935,863**	**166,955,546**

	31 December 2010		
	Should be placed (**)	**Placed (*)**	**Carrying amount**
Non-life:			
Bank deposits *(Note 14)*		81,634,906	81,634,906
Financial assets (*) *(Note 11)*		62,612,055	62,654,860
Total	**134,352,270**	**144,246,961**	**144,289,766**

(*) As at 31 December 2011, government bonds and treasury bills are measured at daily official prices announced by the Central Bank of Turkey in accordance with the 6th Article of "Circular Related to the Financial Structure of Insurance, Reinsurance, and Private Pension Companies".

(**) According to the 7th article of the "Circular Related to the Financial Structure of Insurance, Reinsurance, and Private Pension Companies" which regulates necessary guarantee amount, minimum guarantee fund for capital adequacy calculation period will be established as a guarantee in two months following the calculation period. According to "Regulations Regarding to Capital Adequacy Measurement and Assessment of Insurance, Reinsurance, and Private Pension Companies", companies must prepare their capital adequacy tables twice in a financial year at June and December periods and must sent capital adequacy tables to the Turkish Treasury Department within two months. Since the amounts that should be placed as of 31 December 2011 (31 December 2010) will be through the calculated amounts as of 30 June 2011 (30 June 2010), the settled amounts as of June is presented as "should be placed" amounts.

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 Group.

Group'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 Group's portfolio as individual or group during the period

None.

Pension investment funds established by the Group and their unit prices

None.

(Currency: Turkish Lira (TL))

17 Insurance liabilities and reinsurance assets *(continued)*

Number and amount of participation certificates in portfolio and circulation

None.

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

None.

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

None.

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

None.

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

None.

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

None.

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

None.

Profit share distribution rate of life insurances

None.

Deferred commission expenses

The Group capitalizes commissions paid to the intermediaries related to policy production under short-term and long-term prepaid expenses. As at 31 December 2011, short-term prepaid expenses amounting to TL 247,087,988 (31 December 2010: TL 193,865,215) consist of deferred commission expenses amounting to TL 237,989,180 (31 December 2010: TL 183,990,768) and other prepaid expenses amounting to TL 9,098,808 (31 December 2010: TL 9,874,447). Long-term prepaid expenses amounting TL 574,409 (31 December 2010: TL 2,624) are composed of other prepaid expenses.

	31 December 2011	**31 December 2010**
Deferred commission expenses at the beginning of the period	183,990,768	88,842,304
Commissions accrued during the period *(Note 32)*	522,080,235	230,394,607
Commissions expensed during the period *(Note 32)*	(468,081,823)	(231,099,697)
Effect of group structure change	--	95,853,554
Deferred commission expenses at the end of the period	**237,989,180**	**183,990,768**

Individual pension funds

None.

18 Investment contract liabilities

None.

(Currency: Turkish Lira (TL))

19 Trade and other payables and deferred income

	31 December 2011	31 December 2010
Payables from main operations	186,377,182	137,524,121
Other payables	43,967,057	11,404,337
Short/long term deferred income and expense accruals	35,859,337	26,564,604
Taxes and other liabilities and similar obligations	17,827,446	12,080,590
Due to related parties *(Note 45)*	140,108	131,380
Total	**284,171,130**	**187,705,032**
Short-term liabilities	267,380,160	187,627,008
Long-term liabilities	16,790,970	78,024
Total	**284,171,130**	**187,705,032**

As at 31 December 2011, other payables amounting to TL 43,967,057 (31 December 2010: TL 11,404,337) consist of treatment cost payables to SSI amounting to TL 23,573,354 (31 December 2010: None), payables to Tarsim and DASK and outsourced benefits and services amounting to TL 17,876,572 (31 December 2010: TL 9,878,525) and deposits and guarantees received amounting to TL 2,517,131 (31 December 2010: TL 1,525,812).

Short/long term deferred income and expense accruals include deferred commission income *(Note 10)* amounting to TL 22,962,672 (31 December 2010: TL 15,731,429).

Payables arising from main operations of the Group as at 31 December 2011 and 2010 are as follows:

	31 December 2011	31 December 2010
Payables to reinsurance companies *(Note 10)*	123,369,485	85,979,769
Payables to agencies, brokers and intermediaries	24,551,738	19,918,336
Cash deposited by insurance and reinsurance companies	2,694,464	1,742,574
Payables to policyholders	--	4,089,417
Total payables arising from insurance and reinsurance operations	**150,615,687**	**111,730,096**
Payables arising from other operating activities	35,761,495	25,794,025
Payables arising from main operations	**186,377,182**	**137,524,121**

Corporate tax liabilities and prepaid taxes are disclosed below:

	31 December 2011	31 December 2010
Corporate tax liabilities	220,899	17,710,317
Taxes paid during the period	(15,948,205)	(26,744,160)
Corporate tax assets, net *(Note 12)*	**(15,727,306)**	**(9,033,843)**

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

None.

20 Financial liabilities

None (31 December 2010: TL 745).

(Currency: Turkish Lira (TL))

21 Deferred taxes

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

	31 December 2011 Deferred tax assets / (liabilities)	31 December 2010 Deferred tax assets / (liabilities)
Tax losses *(Note 2.18)*	20,494,761	--
Reserve for unexpired risks	18,720,683	2,630,993
Additional provisions for outstanding claims through actuarial chain ladder method	7,890,185	1,776,526
Provision for the pension fund deficits	5,034,049	4,154,651
Other provisions	3,566,952	1,799,452
Valuation differences in financial assets	2,723,698	(1,887,319)
Provisions for employee termination benefits and unused vacations	2,500,740	2,089,414
Equalization provision	2,353,631	4,573,513
Provision for subrogation receivables	929,978	645,821
Discount of receivables and payables	(71,798)	(822,371)
Commission accrual	(220,005)	(1,951,812)
Difference in depreciation methods on tangible and intangible assets between tax regulations and the Reporting Standards	(390,820)	(289,658)
Subrogation receivables from third parties	(1,364,347)	(1,005,988)
Other	(3,749,164)	(765,236)
Deferred tax assets, net	**58,418,543**	**10,947,986**

As at 31 December 2011, the Group has deductible tax losses amounting TL 102,473,807, which will be expired at 31 December 2016. The Group has recognised deferred tax assets on these tax losses because it is probable that future taxable profit will be available in accordance with the Group's projections.

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

Movement of deferred tax assets:	**31 December 2011**	**31 December 2010**
Opening balance at 1 January	**10,947,986**	**8,467,791**
Recognised in profit or loss	41,366,788	(1,596,620)
Recognised in equity	6,103,769	4,076,815
Closing balance at 31 December	**58,418,543**	**10,947,986**

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

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

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

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

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

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

(Currency: Turkish Lira (TL))

22 Retirement benefit obligations(*continued*)

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

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

Plan assets are comprised of the following items:

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

Up to date, as per the actuarial calculation performed, there has not been any deficit in Anadolu Anonim Türk Sigorta Şirketi Memurları Emekli Sandığı and Anadolu Sigorta has made no payment for this purpose. It is believed that the assets of this institution are adequate enough to cover its total obligations; therefore this shall not constitute any additional liability on Anadolu Sigorta.

(Currency: Turkish Lira (TL))

23 Provision for other liabilities and charges

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

	31 December 2011	31 December 2010
Provision for dividends paid to employees	--	2,061,681
Provision for employee bonus	--	698,317
Provision for costs	**--**	**2,759,998**
Provision for pension fund deficits *(Note 22)*	**25,170,247**	**20,773,255**
Provision for employee termination benefits	**11,781,696**	**9,818,559**
Provision for unused vacation pay liability	**722,001**	**628,513**
Total provision for other risks	**37,673,944**	**33,980,325**

	31 December 2011	31 December 2010
Provision for agency reward	4,685,000	1,700,000
Provision for personnel bonus	3,750,000	3,500,000
Provision for guarantee fund	1,613,569	2,060,227
Sliding scale commission accrual *(Note 10)*	--	2,140,643
Bank expense accrual	--	1,000,000
Deferred income and expense accruals	**10,048,569**	**10,400,870**

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

	31 December 2011	31 December 2010
Provision at the beginning of the period	9,818,559	3,990,182
Interest cost *(Note 47)*	725,997	1,918,631
Service cost *(Note 47)*	812,257	331,946
Payments during the period *(Note 47)*	(1,489,617)	(577,168)
Actuarial differences *(Note 47)*	1,914,500	(811,754)
Effect of group structure change	--	4,966,722
Provision at the end of the period	**11,781,696**	**9,818,559**

(Currency: Turkish Lira (TL))

24 Net insurance premium

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

25 Fee revenue

None.

26 Investment income

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

27 Net income accrual on financial assets

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

28 Asset held at fair value through profit or loss

Presented in "*Note 4.2* – Financial Risk Management".

29 Insurance rights and claims

	31 December 2011		31 December 2010	
	Life	**Non-Life**	**Life**	**Non-Life**
Claims paid, net off reinsurers' share	(6,823,372)	(1,565,776,973)	(5,506,322)	(759,619,330)
Changes in provision for outstanding claims, net off reinsurers' share	146,367	(261,576,405)	(2,305,074)	(9,310,206)
Changes in reserve for unearned premium, net off reinsurers' share	(452,266)	(283,570,065)	(2,674,030)	(40,778,841)
Change in equalization provision	(197,964)	(2,049,096)	(233,007)	(6,418,575)
Change in life mathematical provisions, net off reinsurers' share	(184,915)	--	(351,797)	--
Changes in reserve for unexpired risks, net off reinsurers' share	--	(80,448,452)	--	(636,604)
Total	**(7,512,150)**	**(2,193,420,991)**	**(11,070,230)**	**(816,763,556)**

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

(Currency: Turkish Lira (TL))

32 Operating expenses

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

	31 December 2011	**31 December 2010**
Commission expenses *(Note 17)*	468,081,823	231,099,697
Commissions to the intermediaries accrued during the period (Note 17)	*522,080,235*	*230,394,607*
Changes in deferred commission expenses (Note 17)	*(53,998,412)*	*705,090*
Commission income from reinsurers *(Note 10)*	(46,397,105)	(6,669,903)
Commission income from reinsurers accrued during the period (Note 10)	*(53,628,348)*	*(6,921,386)*
Change in deferred commission income (Note 10)	*7,231,243*	*251,483*
Employee benefit expenses *(Note 33)*	101,827,490	48,323,718
Administration expenses	59,019,958	23,251,074
Advertising and marketing expenses	15,926,567	4,108,683
Foreign exchange gains and losses	13,548,848	12,504,024
Outsourced benefits and services	1,898,666	980,337
Other expenses	35,691,413	7,979,858
Total	**649,597,660**	**321,577,488**

33 Employee benefit expenses

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

	31 December 2011	**31 December 2010**
Wages and salaries	73,579,731	38,472,173
Employer's share in social security premiums	13,692,839	6,105,382
Pension fund benefits	3,247,723	2,774,080
Other	11,307,197	972,083
Total *(Note 32)*	**101,827,490**	**48,323,718**

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 consolidated statement of income.

(Currency: Turkish Lira (TL))

35 Income tax expense

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

	31 December 2011	31 December 2010
Corporate tax expense:		
Corporate tax provision	(220,899)	(17,710,317)
Deferred taxes:		
Origination and reversal of temporary differences	41,366,788	(1,596,620)
Total tax income / (expense)	**41,145,889**	**(19,306,937)**

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 Group's effective income tax rate for the year ended 31 December 2011 and 2010 is as follows:

	31 December 2011		31 December 2010	
Profit / (loss) before taxes	**(208,168,857)**	**Tax Rate (%)**	**103,560,616**	**Tax Rate (%)**
Taxes on income per statutory tax rate	(41,633,771)	(20.00)	20,712,123	20.00
Tax exempt income	(4,232,844)	(2.03)	(2,800,692)	(2.70)
Non-deductible expenses	4,720,726	2.26	1,395,506	1.35
Total tax (income) / expense recognized in consolidated profit or loss	**(41,145,889)**	**(19.77)**	**19,306,937**	**18.65**

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 is calculated by dividing net profit of the year to the weighted average number of shares.

	31 December 2011	31 December 2010
Net (loss) / profit for the period	(167,022,968)	84,253,979
Weighted average number of shares (*)	61,500,000,000	61,500,000,000
(Loss) / earnings per share (TL)	(0,00271582)	0,00136998

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

(Currency: Turkish Lira (TL))

38 Dividends per share

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

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

- 10% of legal reserve,

- 10% of first dividend to shareholders,

- Reserve for natural disasters and catastrophe might be allocated, if deemed necessary, based on the suggestion of the Board of Directors and decision of the General Assembly,

- After the allocation of first legal reserves, first dividend to shareholders and statutory reserves, 3.5% of the remaining amount is distributed to the Founder Shares and up to 3% of the remaining amount not exceeding three-wages is distributed to personnel, based on the suggestion of the Board of Directors and decision of the General Assembly.

- After the allocation of above mentioned reserves and dividends, second dividend to shareholders might be allocated, based on the suggestion of the Board of Directors and decision of the General Assembly.

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

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

39 Cash generated from operations

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

40 Convertible bonds

None.

41 Redeemable preference shares

None.

(Currency: Turkish Lira (TL))

42 Risks

In the normal course of its operations, the Group is exposed to legal disputes, claims and challenges, which mainly stem from its insurance operations. The necessary income/expense accruals for the revocable cases against/on behalf of the Group are provided under provision for outstanding claims in the accompanying consolidated financial statements.

As at 31 December 2011, total amount of the claims that the Group may face is as TL 380,750,000 in gross (31 December 2010: TL 288,034,000). The Group provided provision for outstanding claims in the consolidated financial statements by considering collateral amounts.

43 Commitments

In the normal course of its operations, the Group 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 details of the guarantees that are given by the Group for the operations in non-life branches are presented in *Note 17*.

The future aggregate minimum lease payments under operating leases are as follows:

	31 December 2011	**31 December 2010**
Within one year	6,053,411	4,813,567
Between two to five years	15,536,216	14,548,391
More than 5 years	--	--
Total of minimum rent payments	**21,589,627**	**19,361,958**

44 Business combinations

The Company purchased İş Bankası's share in Anadolu Sigorta with a share of 35.53% and a nominal value of TL 177,650,110 with a share price of TL 248,710,154 as at 30 September 2010. After the sale, the share of the Company increased to 57.31% from 21.78%.

The acquired subsidiary, Anadolu Sigorta could be treated as an integrated operation of the Company by nature or by transfer of knowledge, were under common control with the Company since the beginning of their operations. The acquisition of this entity being under common control is accounted for using book values, where in its consolidated financial statements the acquirer, is permitted, but not required, to restate its comparatives as if the combination had been in existence throughout the reporting periods presented. This application is based on the management judgment that this treatment is the best way to present the economic substance of the transaction since the transaction is moving the shares of one party from one part of the group to another, there is no independent third party involvement and in particular the purchase price is not determined on an arm's length basis. Management decided not to restate its comparative information. Excess of cash paid over net assets is recognised in "Transactions under common control" directly in equity.

In the three months to 31 December 2010, the subsidiary contributed profit of TL 20,201,355. If the acquisition had occurred on 1 January 2010, management estimates that consolidated profit for the period would have been TL 72,394,361.

(Currency: Turkish Lira (TL))

44 Business combinations *(continued)*

The acquisition had the following effect on the Group's assets and liabilities on acquisition date:

Net assets acquired	**Note**	**Recognised values on acquisition**
Cash and cash equivalents		542,680,116
Financial assets		482,497,123
Receivables from main operations		382,524,524
Prepaid expenses and income accruals		117,601,897
Tangible assets	6	23,378,381
Intangible assets	8	24,164,649
Other receivables and other assets		91,452,173
Payables arising from main operations		(84,403,053)
Insurance technical provisions		(907,480,204)
Deferred income and expense accruals		(24,553,748)
Provision for other risks		(4,966,722)
Other payables and liabilities		(8,488,136)
Total net asset value		**634,407,000**
The Company's share on net assets acquired (35.53%)		225,404,807
Effect of business combination on equity items	15	(47,754,702)
		177,650,105
Transactions under common control	15	71,060,049
Total consideration, satisfied by cash		**248,710,154**
Cash consideration paid		248,710,154
Cash and cash equivalents acquired		(542,680,116)
Net cash inflow from acquisition		**(293,969,962)**

Pre-acquisition carrying amounts were determined based on applicable TASs immediately before acquisition. The values of assets, liabilities, and contingent liabilities recognised on acquisition are their historical cost.

Excess of net assets over cash paid is recognised in "Transactions under common control" directly in equity.

(Currency: Turkish Lira (TL))

45 Related party transactions

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

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

	31 December 2011	31 December 2010
Bonds issued by İş Bankası AŞ *(Note 11)*	69,581,871	--
Equity shares of the related parties *(Note 11)*	40,564,575	53,772,208
Investment funds founded by İş Bankası AŞ *(Note 11)*	35,896,157	57,058,019
Investment funds founded by İş Portföy Yönetimi AŞ *(Note 11)*	16,828,300	--
Investment funds founded by İşbank GmbH *(Note 11)*	14,524,036	19,188,958
Eurobonds issued by İş Bankası AŞ *(Note 11)*	9,393,568	--
Investment funds founded by İş Yatırım Menkul Değerler AŞ *(Note 11)*	5,386,761	561,789
Bonds issued by İş Finansal Kiralama AŞ *(Note 11)*	1,837,800	--
Financial assets	**194,013,068**	**130,580,974**
Türkiye İş Bankası AŞ	870,665,914	178,151,337
T.C. Ziraat Bankası AŞ	3,883,402	598,101,123
Other	10,095	465,452
Banks	**874,559,411**	**776,717,912**
Türkiye İş Bankası AŞ	43,203,869	33,701,772
Axa Sigorta AŞ	8,536,885	4,515,213
Şişecam Sigorta Aracılık Hizmetleri AŞ	4,582,677	3,690,868
Allianz Sigorta AŞ	592,698	354,821
Anadolu Hayat Emeklilik AŞ	163,055	112,174
İstanbul Umum Sigorta AŞ	71,363	62,101
Ergo Sigorta AŞ	18,166	2,667,904
AvivaSa Emeklilik AŞ	4,507	--
Receivables from main operations	**57,173,220**	**45,104,853**
Due from other personnel	90,230	82,070
Due from related parties	**90,230**	**82,070**
Şisecam Sigorta Aracılık Hizmetleri AŞ	19,543,199	259,663
Groupama Sigorta AŞ (Güven Sigorta TAŞ)	414,322	1,230,022
Türkiye İş Bankası AŞ	347,710	4,457,941
Groupama Sigorta AŞ	153,603	617,450
Ergo Sigorta AŞ	100,062	--
Axa Sigorta AŞ	53,154	54,410
İstanbul Umum Sigorta AŞ	41,368	43,874
Allianz Sigorta AŞ	41,041	42,118
Anadolu Hayat Emeklilik AŞ	228	--
AvivaSa Emeklilik AŞ	--	121,275
Payables from main operations	**20,694,687**	**6,826,753**
Due to shareholders	112,112	73,646
Due to other related parties	27,996	57,734
Due to related parties	**140,108**	**131,380**

(Currency: Turkish Lira (TL))

45 Related party transactions *(continued)*

No guarantees have been taken against receivables from related parties.

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

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

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

	31 December 2011	31 December 2010
İş Bankası	170,228,945	--
Ergo Sigorta AŞ	41,191,693	45,056,043
Şişecam Sigorta Aracılık Hizmetleri AŞ	31,293,362	--
Axa Sigorta AŞ	26,000,637	15,582,588
Allianz Sigorta AŞ	23,152,192	26,491,982
Groupama Sigorta AŞ	7,254,713	6,328,165
Anadolu Hayat	1,984,888	621,888
AvivaSa Emeklilik AŞ	512,540	467,232
Groupama Sigorta AŞ (Güven Sigorta TAŞ)	139,156	112,663
Premiums received	**301,758,126**	**94,660,561**
Ergo Sigorta AŞ	58,915	61,885
Groupama Sigorta AŞ	24,913	27,165
Axa Sigorta AŞ	12,566	15,014
Groupama Sigorta AŞ (Güven Sigorta TAŞ)	4,034	5,050
Allianz Sigorta AŞ	33	(4)
İstanbul Umum Sigorta AŞ	12	5
Premiums ceded	**100,473**	**109,115**
Allianz Sigorta AŞ	2	(1)
İstanbul Umum Sigorta AŞ	1	--
Groupama Sigorta AŞ	--	24,779
Ergo Sigorta AŞ	--	18,758
Axa Sigorta AŞ	--	10,858
Groupama Sigorta AŞ (Güven Sigorta TAŞ)	--	4,570
Commissions received	**3**	**58,964**
İş Bankası	18,177,384	--
Ergo Sigorta AŞ	9,107,794	7,914,157
Şişecam Sigorta Aracılık Hizmetleri AŞ	6,334,995	--
Allianz Sigorta AŞ	5,876,593	6,340,757
Axa Sigorta AŞ	2,482,614	4,978,843
Groupama Sigorta AŞ	1,131,358	1,700,148
AvivaSa Emeklilik AŞ	305,743	39,543
Anadolu Hayat	175,706	135,917
Groupama Sigorta AŞ (Güven Sigorta TAŞ)	78,070	17,941
Commisions given	**43,670,257**	**21,127,306**

(Currency: Turkish Lira (TL))

45 Related party transactions *(continued)*

	31 December 2011	**31 December 2010**
Ergo Sigorta AŞ	31,597,360	37,179,390
Allianz Sigorta AŞ	16,810,769	30,188,363
Groupama Sigorta AŞ	7,901,921	6,599,074
Axa Sigorta AŞ	4,747,237	5,668,168
Groupama Sigorta AŞ (Güven Sigorta TAŞ)	1,560,650	3,439,890
AvivaSa Emeklilik AŞ	196,477	556,196
Anadolu Hayat	59,096	1,711,429
Claims paid	**62,873,510**	**85,342,510**
Groupama Sigorta AŞ	226,304	317,883
Ergo Sigorta AŞ	182,117	320,626
Axa Sigorta AŞ	145,983	200,940
Groupama Sigorta AŞ (Güven Sigorta TAŞ)	75,643	90,435
İstanbul Umum Sigorta AŞ	20,022	11,577
Allianz Sigorta AŞ	14,157	9,648
Reinsurance's share of claims paid	**664,226**	**951,109**
Axa Sigorta AŞ	916,441	57,287
Allianz Sigorta AŞ	558,914	151,837
Ergo Sigorta AŞ	453,179	479,476
Groupama Sigorta AŞ	202,070	10,347
Groupama Sigorta AŞ (Güven Sigorta TAŞ)	1,420	8,305
AvivaSa Emeklilik AŞ	1,417	623
Anadolu Hayat	1,345	(90)
İstanbul Umum Sigorta AŞ	--	2,769
Other income	**2,134,786**	**710,554**
Allianz Sigorta AŞ	173,064	174,173
Axa Sigorta AŞ	86,106	44,708
Groupama Sigorta AŞ	55,543	133,696
Groupama Sigorta AŞ (Güven Sigorta TAŞ)	42,848	3,125
Ergo Sigorta AŞ	39,732	224,382
Anadolu Hayat	200	698
İstanbul Umum Sigorta AŞ	39	570
AvivaSa Emeklilik AŞ	--	768
Other expenses	**397,532**	**582,120**

46 Events after the reporting date

Events are the reporting date disclosed in Note 1.10 *Events after the reporting date*.

(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 2011 and 2010, details of discount and provision expenses are as follows

	31 December 2011	31 December 2010
Reversal of income accrual of subrogation and salvage receivables *(Note 2.25)*	--	(14,028,224)
Other provision expenses *(Note 17)*	306,496	(5,413,605)
Provision expenses for doubtful receivables *(Note 4.2)* (*)	(11,355,896)	(2,675,578)
Provision for pension fund deficits *(Note 23)*	(4,396,992)	(1,356,665)
Provision for employee termination benefits *(Note 33)*	(1,963,137)	(861,655)
Provision expenses for unused vacation pay *(Note 33)*	(93,488)	(110,428)
Provision expenses	**(17,503,017)**	**(24,446,155)**

(*) Provision expense stems from provision expense on doubtful receivables from main operations amounting to TL 11,344,429 and provision expense on doubtful receivables from other receivables amounting to TL 11,467.

	31 December 2011	31 December 2010
Rediscount income / (expense) from insurance receivables	14,579,097	(1,601,420)
Rediscount income / (expense) due to reinsurance payables	(11,385,495)	(669,388)
Total of rediscounts	**3,193,602**	**(2,270,808)**