(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 2012
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

15 March 2013

This report includes 2 pages of independent auditors' report and 90 pages of financial information together with their explanatory notes.

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

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Milli Reasürans Türk Anonim Şirketi

Introduction

We have audited the accompanying consolidated balance sheet of Milli Reasürans Türk Anonim Şirketi ("the Company") and its subsidiary (together "the Group") as at 31 December 2012 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 consolidated 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 financial position of Milli Reasürans Türk Anonim Şirketi and its subsidiary as at 31 December 2012, 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.

İstanbul, 15 March 2013

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik AŞ

Murat Alsan, Certified Public Accountant
Partner

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MİLLÎ REASÜRANS TÜRK ANONİM ŞİRKETİ
CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2012

We confirm that the consolidated financial statements and related disclosures and footnotes as at 31 December 2012 which were prepared in accordance with the accounting principles and standards in force as per the regulations of T.C. Başbakanlık Hazine Müsteşarlığı are in compliance with the "Code Related to the Financial Reporting of Insurance, Reinsurance and Private Pension Companies" and the financial records of our Company.

Istanbul, 15 March 2012

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

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(Currency: Turkish Lira (TL))

ASSETS			
I- Current Assets	**Note**	**Audited Current Period 31 December 2012**	**Audited Prior Period 31 December 2011**
A- Cash and Cash Equivalents	**14**	**1,645,748,238**	**1,493,918,555**
1- Cash	14	83,735	75,156
2- Cheques Received		--	--
3- Banks	14	1,487,717,553	1,273,591,713
4- Cheques Given and Payment Orders	14	(1,104,472)	(1,450,675)
5- Bank Guaranteed Credit Card Receivables With Maturity Less Than Three Months	14	159,051,422	221,702,361
6- Other Cash and Cash Equivalents		--	--
B- Financial Assets and Financial Investments with Risks on Policyholders	**11**	**703,643,135**	**634,221,435**
1- Available-for-Sale Financial Assets	11	521,562,329	376,998,930
2- Held to Maturity Investments	11	89,590,740	85,608,329
3- Financial Assets Held for Trading	11	98,287,678	177,411,788
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**	**831,903,951**	**790,518,246**
1- Receivables from Insurance Operations	12	603,166,176	511,613,696
2- Provision for Receivables from Insurance Operations	12	(9,137,211)	(4,649,888)
3- Receivables from Reinsurance Operations	12	163,671,348	170,938,567
4- Provision for Receivables from Reinsurance Operations		--	--
5- Cash Deposited to Insurance & Reinsurance Companies	12	74,203,638	112,615,871
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	88,000,019	82,454,972
10- Provision for Doubtful Receivables from Main Operations	4.2,12	(88,000,019)	(82,454,972)
D- Due from Related Parties	**12**	**1,445,693**	**90,230**
1- Due from Shareholders		--	--
2- Due from Associates		--	--
3- Due from Subsidiaries		--	--
4- Due from Joint Ventures		--	--
5- Due from Personnel	12	1,445,693	90,230
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**	**2,305,977**	**2,079,390**
1- Finance Lease Receivables		--	--
2- Unearned Finance Lease Interest Income		--	--
3- Deposits and Guarantees Given	12	112,510	74,132
4- Other Miscellaneous Receivables	12	2,193,467	2,005,258
5- Rediscount on Other Miscellaneous Receivables		--	--
6- Other Doubtful Receivables	12	232,377	28,088
7- Provision for Other Doubtful Receivables	12	(232,377)	(28,088)
F- Prepaid Expenses and Income Accruals		**274,562,665**	**254,251,990**
1- Deferred Acquisition Costs	17	256,579,864	247,087,988
2- Accrued Interest and Rent Income		--	--
3- Income Accruals	4.2,12	17,791,902	7,164,002
4- Other Prepaid Expenses	4.2,12	190,899	--
G- Other Current Assets		**21,901,283**	**17,578,209**
1- Stocks to be Used in the Following Months		752,637	541,247
2- Prepaid Taxes and Funds	12,19	20,191,743	15,727,306
3- Deferred Tax Assets		--	--
4- Job Advances	12	76,468	38,150
5- Advances Given to Personnel	12	35,685	10,857
6- Inventory Count Differences		--	--
7- Other Miscellaneous Current Assets	12	844,750	1,260,649
8- Provision for Other Current Assets		--	--
I- Total Current Assets		**3,481,510,942**	**3,192,658,055**

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

(Currency: Turkish Lira (TL))

ASSETS			
II- Non-Current Assets	**Note**	**Audited Current Period 31 December 2012**	**Audited Prior Period 31 December 2011**
A- Receivables from Main Operations		**--**	**--**
1- Receivables from Insurance Operations		--	--
2- Provision for Receivables from Insurance Operations		--	--
3- Receivables from Reinsurance Operations		--	--
4- Provision for Receivables from Reinsurance Operations		--	--
5- Cash Deposited for Insurance and Reinsurance Companies		--	--
6- Loans to the Policyholders		--	--
7- Provision for Loans to the Policyholders		--	--
8- Receivables from Individual Pension Business		--	--
9- Doubtful Receivables from Main Operations	4.2,12	9,372,557	9,833,504
10- Provision for Doubtful Receivables from Main Operations	4.2,12	(9,372,557)	(9,833,504)
B- Due from Related Parties		**--**	**--**
1- Due from Shareholders		--	--
2- Due from Associates		--	--
3- Due from Subsidiaries		--	--
4- Due from Joint Ventures		--	--
5- Due from Personnel		--	--
6- Due from Other Related Parties		--	--
7- Rediscount on Receivables from Related Parties		--	--
8- Doubtful Receivables from Related Parties		--	--
9- Provision for Doubtful Receivables from Related Parties		--	--
C- Other Receivables		**--**	**--**
1- Finance Lease Receivables		--	--
2- Unearned Finance Lease Interest Income		--	--
3- Deposits and Guarantees Given		--	--
4- Other Miscellaneous Receivables		--	--
5- Rediscount on Other Miscellaneous Receivables		--	--
6- Other Doubtful Receivables		--	--
7- Provision for Other Doubtful Receivables		--	--
D- Financial Assets	**9**	**111,938,184**	**91,747,098**
1- Investments in Equity Shares		--	--
2- Investments in Associates	9	111,191,977	91,000,891
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**	**59,800,212**	**64,451,777**
1- Investment Properties	6,7	48,325,615	48,325,615
2- Impairment for Investment Properties		--	--
3- Owner Occupied Property	6	37,780,674	37,745,132
4- Machinery and Equipments	6	26,268,960	25,657,096
5- Furniture and Fixtures	6	12,534,797	12,334,124
6- Motor Vehicles	6	2,515,065	2,309,072
7- Other Tangible Assets (Including Leasehold Improvements)	6	4,038,677	3,783,569
8- Tangible Assets Acquired Through Finance Leases	6	4,166,354	4,339,065
9- Accumulated Depreciation	6	(75,829,930)	(70,041,896)
10- Advances Paid for Tangible Assets (Including Construction in Progress)		--	--
F- Intangible Assets	**8**	**55,228,029**	**36,847,001**
1- Rights	8	23,749,405	18,607,067
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	(16,488,719)	(12,346,494)
7- Advances Paid for Intangible Assets	8	31,717,343	14,336,428
G- Prepaid Expenses and Income Accruals		**582,985**	**574,409**
1- Deferred Acquisition Costs	17	564,809	561,891
2- Income Accruals		--	--
3- Other Prepaid Expenses		18,176	12,518
H- Other Non-Current Assets	**21**	**53,565,380**	**58,418,543**
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	53,565,380	58,418,543
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		**281,114,790**	**252,038,828**
TOTAL ASSETS		**3,762,625,732**	**3,444,696,883**

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 2012**	**Audited Prior Period 31 December 2011**
A- Financial Liabilities		**--**	**--**
1- Borrowings from Financial Institutions		--	--
2- Finance Lease Payables		--	--
3- Deferred Leasing Costs		--	--
4- Current Portion of Long Term Debts		--	--
5- Principal Installments and Interests on Bonds Issued		--	--
6- Other Financial Assets Issued		--	--
7- Valuation Differences of Other Financial Assets Issued		--	--
8- Other Financial Liabilities		--	--
B- Payables Arising from Main Operations	**19**	**226,720,673**	**186,377,182**
1- Payables Arising from Insurance Operations		133,512,325	115,697,180
2- Payables Arising from Reinsurance Operations		24,812,722	32,224,043
3- Cash Deposited by Insurance and Reinsurance Companies		4,233,782	2,694,464
4- Payables Arising from Pension Operations		--	--
5- Payables Arising from Other Operations		64,161,844	35,761,495
6- Discount on Payables from Other Operations		--	--
C-Due to Related Parties	**19**	**136,523**	**140,108**
1- Due to Shareholders		87,944	112,112
2- Due to Associates		--	--
3- Due to Subsidiaries		--	--
4- Due to Joint Ventures		--	--
5- Due to Personnel		--	--
6- Due to Other Related Parties		48,579	27,996
D- Other Payables	**19**	**36,435,913**	**27,242,753**
1- Deposits and Guarantees Received		3,215,535	2,530,631
2- Payables to Social Security Institution Related to Treatment Expenses		8,092,174	6,975,877
3- Other Miscellaneous Payables		25,207,751	17,863,072
4- Discount on Other Miscellaneous Payables		(79,547)	(126,827)
E-Insurance Technical Provisions	**17**	**2,383,856,465**	**2,262,896,936**
1- Reserve for Unearned Premiums - Net	17	1,259,180,332	1,210,885,376
2- Reserve for Unexpired Risks- Net	17	5,894,828	93,603,413
3- Life Mathematical Provisions - Net	17	1,020,079	1,377,701
4- Provision for Outstanding Claims - Net	17	1,117,761,226	957,030,446
5- Provision for Bonus and Discounts - Net		--	--
6- Other Technical Provisions - Net		--	--
F- Provisions for Taxes and Other Similar Obligations	**19**	**17,222,799**	**17,827,446**
1- Taxes and Funds Payable		15,752,881	16,254,171
2- Social Security Premiums Payable		1,469,918	1,573,275
3- Overdue, Deferred or By Installment Taxes and Other Liabilities		--	--
4- Other Taxes and Similar Payables		--	--
5- Corporate Tax Payable		--	220,899
6- Prepaid Taxes and Other Liabilities Regarding Current Year Income		--	(220,899)
7- Provisions for Other Taxes and Similar Liabilities		--	--
G- Provisions for Other Risks		**--**	**--**
1- Provision for Employee Termination Benefits		--	--
2- Provision for Pension Fund Deficits		--	--
3- Provisions for Costs		--	--
H- Deferred Income and Expense Accruals	**19**	**51,052,906**	**35,792,671**
1- Deferred Commission Income	10,19	27,576,172	22,962,672
2- Expense Accruals	19	23,349,314	12,710,182
3- Other Deferred Income	19	127,420	119,817
I- Other Short Term Liabilities		**849,038**	**722,001**
1- Deferred Tax Liabilities		--	--
2- Inventory Count Differences		--	--
3- Other Various Short Term Liabilities		849,038	722,001
III – Total Short Term Liabilities		**2,716,274,317**	**2,530,999,097**

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 2012**	**Audited Prior Period 31 December 2011**
A- Financial Liabilities		**--**	**--**
1- Borrowings from Financial Institutions		--	--
2- Finance Lease Payables		--	--
3- Deferred Leasing Costs		--	--
4- Bonds Issued		--	--
5- Other Financial Assets Issued		--	--
6- Valuation Differences of Other Financial Assets Issued		--	--
7- Other Financial Liabilities		--	--
B- Payables Arising from Operating Activities		**--**	**--**
1- Payables Arising from Insurance Operations		--	--
2- Payables Arising from Reinsurance Operations		--	--
3- Cash Deposited by Insurance and Reinsurance Companies		--	--
4- Payables Arising from Pension Operations		--	--
5- Payables Arising from Other Operations		--	--
6- Discount on Payables from Other Operations		--	--
C- Due to Related Parties		**--**	**--**
1- Due to Shareholders		--	--
2- Due to Associates		--	--
3- Due to Subsidiaries		--	--
4- Due to Joint Ventures		--	--
5- Due to Personnel		--	--
6- Due to Other Related Parties		--	--
D- Other Payables	**19**	**24,983,370**	**16,724,304**
1- Deposits and Guarantees Received		--	--
2- Payables to Social Security Institution Related to Treatment Expenses		26,203,681	20,167,047
3- Other Miscellaneous Payables		--	--
4- Discount on Other Miscellaneous Payables		(1,220,311)	(3,442,743)
E-Insurance Technical Provisions	**17**	**50,420,599**	**40,303,163**
1- Reserve for Unearned Premiums - Net		--	--
2- Reserve for Unexpired Risks - Net		--	--
3- Life Mathematical Provisions - Net		--	--
4- Provision for Outstanding Claims - Net		--	--
5- Provision for Bonus and Discounts - Net		--	--
6- Other Technical Provisions - Net	17	50,420,599	40,303,163
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**	**46,274,819**	**36,951,943**
1- Provisions for Employment Termination Benefits	23	15,179,424	11,781,696
2- Provisions for Pension Fund Deficits	22,23	31,095,395	25,170,247
H-Deferred Income and Expense Accruals	**19**	**16,667**	**66,666**
1- Deferred Commission Income		--	--
2- Expense Accruals		--	--
3- Other Deferred Income	19	16,667	66,666
I- Other Long Term Liabilities		**--**	**--**
1- Deferred Tax Liabilities		--	--
2- Other Long Term Liabilities		--	--
IV - Total Long Term Liabilities		**121,695,455**	**94,046,076**

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 2012**	**Audited Prior Period 31 December 2011**
A- Paid in Capital		**615,000,000**	**615,000,000**
1- (Nominal) Capital	2.13,15	615,000,000	615,000,000
2- Unpaid Capital (-)		--	--
3- Positive Capital Restatement Differences		--	--
4- Negative Capital Restatement Differences (-)		--	--
5- Unregistered Capital		--	--
B- Capital Reserves	**15**	**1,088,645**	**(735,708)**
1- Share Premiums		--	--
2- Cancellation Profits of Equity Shares		--	--
3- Profit on Sale Assets That Will Be Transferred to Capital		--	--
4- Currency Translation Adjustments	15	(3,588,736)	(5,367,227)
5- Other Capital Reserves	15	4,677,381	4,631,519
C- Profit Reserves		**144,015,548**	**91,133,993**
1- Legal Reserves	15	75,456,222	73,993,593
2- Statutory Reserves	15	45,217,862	44,333,069
3- Extraordinary Reserves	15	17,420,430	14,084,730
4- Special Funds		--	--
5- Revaluation of Financial Assets	11,15	51,655,758	4,457,325
6- Other Profit Reserves	15	25,325,325	25,325,325
7- Subsidiary Capital Correction	15	(71,060,049)	(71,060,049)
D- Retained Earnings		**--**	**7,018,250**
1- Retained Earnings		--	7,018,250
E- Accumulated Losses		**(162,597,232)**	**--**
1- Accumulated Losses		(162,597,232)	--
F-Net Profit/(Loss) for the Year		**63,341,662**	**(163,886,498)**
1- Net Profit for the Year		63,341,662	--
2- Net Loss for the Year		--	(163,932,361)
3- Net Profit for the Year not Subject to Distribution		--	45,863
G- Minority Shares		**263,807,337**	**271,121,673**
V- Total Equity		**924,655,960**	**819,651,710**
TOTAL EQUITY AND LIABILITIES		**3,762,625,732**	**3,444,696,883**

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 2012**	**Audited Prior Period 31 December 2011**
A- Non-Life Technical Income		**2,882,812,655**	**2,252,949,141**
1- Earned Premiums (Net of Reinsurer Share)		2,669,893,416	2,025,768,118
1.1- Written Premiums (Net of Reinsurer Share)	17	2,630,823,968	2,389,786,635
1.1.1- Written Premiums, gross	17	3,164,071,015	2,811,225,263
1.1.2- Written Premiums, ceded	10,17	(489,384,169)	(397,464,485)
1.1.3- Written Premiums, SSI share		(43,862,878)	(23,974,143)
1.2- Change in Reserve for Unearned Premiums (Net of Reinsurer Shares and Less the Amounts Carried Forward)	17,29	(48,639,137)	(283,570,065)
1.2.1- Reserve for Unearned Premiums, gross	17	(87,933,911)	(349,288,473)
1.2.2- Reserve for Unearned Premiums, ceded	10,17	33,173,992	51,639,175
1.2.3- Reserve for Unearned Premiums,SSI share		6,120,782	14,079,233
1.3- Change in Reserve for Unexpired Risks (Net of Reinsurer Share and Less the Amounts Carried Forward)		87,708,585	(80,448,452)
1.3.1- Reserve for Unexpired Risks, gross		98,326,618	(86,507,971)
1.3.2- Reserve for Unexpired Risks, ceded		(10,618,033)	6,059,519
2- Investment Income - Transferred from Non-Technical Section		205,824,998	147,923,921
3- Other Technical Income (Net of Reinsurer Share)		17,388,951	65,333,386
3.1- Other Technical Income, gross		17,387,935	64,076,161
3.2- Other Technical Income, ceded		1,016	1,257,225
4. Accrued Salvage and Subrogation Income		(10,294,710)	13,923,716
B- Non-Life Technical Expense		**(2,861,530,567)**	**(2,470,860,545)**
1- Incurred Losses (Net of Reinsurer Share)		(2,083,202,203)	(1,827,353,378)
1.1- Claims Paid (Net of Reinsurer Share)	17,29	(1,922,798,316)	(1,565,776,973)
1.1.1- Claims Paid, gross	17	(2,022,729,707)	(1,632,277,612)
1.1.2- Claims Paid, ceded	10,17	99,931,391	66,500,639
1.2- Change in Provisions for Outstanding Claims (Net of Reinsurer Share and Less the Amounts Carried Forward)	17,29	(160,403,887)	(261,576,405)
1.2.1- Change in Provisions for Outstanding Claims, gross	17	(161,080,597)	(252,801,109)
1.2.2- Change in Provisions for Outstanding Claims, ceded	10,17	676,710	(8,775,296)
2- Change in Provision for Bonus and Discounts (Net of Reinsurer Share and Less the Amounts Carried Forward)		--	--
2.1- Provision for Bonus and Discounts, gross		--	--
2.2- Provision for Bonus and Discounts, ceded		--	--
3- Change in Other Technical Reserves (Net of Reinsurer Share and Less the Amounts Carried Forward)	29	(15,278,762)	(2,049,096)
4- Operating Expenses	32	(759,306,158)	(640,058,855)
5- Change in Mathematical Provisions (Net of Reinsurer Share and Less the Amounts Carried Forward)		--	--
5.1- Mathematical Provisions		--	--
5.2- Mathematical Provisions, ceded		--	--
6- Other Technical Expense		(3,743,444)	(1,399,216)
6.1- Other Technical Expense, gross		(3,743,444)	(1,399,216)
6.2- Other Technical Expense, ceded		--	--
C- Net Technical Income-Non-Life (A – B)		**21,282,088**	**(217,911,404)**
D- Life Technical Income		**21,192,665**	**17,763,764**
1- Earned Premiums (Net of Reinsurer Share)		19,881,882	16,338,915
1.1- Written Premiums (Net of Reinsurer Share)	17	19,537,701	16,791,181
1.1.1- Written Premiums, gross	17	20,487,622	17,434,891
1.1.2- Written Premiums, ceded	10,17	(949,921)	(643,710)
1.2- Change in Reserve for Unearned Premiums (Net of Reinsurer Shares and Less the Amounts Carried Forward)	17,29	344,181	(452,266)
1.2.1- Reserve for Unearned Premiums, gross	17	242,510	(214,301)
1.2.2- Reserve for Unearned Premiums, ceded	10,17	101,671	(237,965)
1.3- Change in Reserve for Unexpired Risks (Net of Reinsurer Share and Less the Amounts Carried Forward)		--	--
1.3.1- Reserve for Unexpired Risks, gross		--	--
1.3.2- Reserve for Unexpired Risks, ceded		--	--
2- Investment Income		1,292,350	1,371,200
3- Unrealized Gains on Investments		--	--
4- Other Technical Income (Net of Reinsurer Share)		18,433	53,649
4.1- Other Technical Income, gross		18,433	53,649
4.2- Other Technical Income, ceded		--	--
5- Accrued Salvage and Subrogation Income		--	--

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

(Currency: Turkish Lira (TL))

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

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

(Currency: Turkish Lira (TL))

II-NON-TECHNICAL SECTION	**Note**	**Audited Current Period 31 December 2012**	**Audited Prior Period 31 December 2011**
C- Net Technical Income – Non-Life (A-B)		**21,282,088**	**(217,911,404)**
F- Net Technical Income – Life (D-E)		**6,769,639**	**2,564,291**
I - Net Technical Income – Pension Business (G-H)		**--**	**--**
J- Total Net Technical Income (C+F+I)		**28,051,727**	**(215,347,113)**
K- Investment Income		**293,976,221**	**276,019,989**
1- Income from Financial Assets	4.2	166,562,734	131,725,638
2- Income from Disposal of Financial Assets	4.2	47,111,907	58,071,242
3- Valuation of Financial Assets	4.2	31,792,127	(16,494,071)
4- Foreign Exchange Gains	4.2	19,646,211	55,415,455
5- Income from Associates	4.2	16,999,936	16,463,338
6- Income from Subsidiaries and Joint Ventures	4.2	--	2,310
7- Income from Property, Plant and Equipment	7	11,204,062	9,910,901
8- Income from Derivative Transactions	4.2	626,857	20,835,733
9- Other Investments		32,387	89,443
10- Income Transferred from Life Section		--	--
L- Investment Expense		**(268,566,730)**	**(255,652,394)**
1- Investment Management Expenses (including interest)	4.2	(585,732)	(678,809)
2- Diminution in Value of Investments	4.2	(4,837,314)	(19,967,729)
3- Loss from Disposal of Financial Assets	4.2	(10,321,479)	(15,604,346)
4- Investment Income Transferred to Non-Life Technical Section		(205,824,998)	(147,923,921)
5- Loss from Derivative Transactions	4.2	(311,150)	(36,484,299)
6- Foreign Exchange Losses	4.2	(30,693,599)	(20,429,120)
7- Depreciation and Amortization Expenses	6,8	(10,592,826)	(10,113,640)
8- Other Investment Expenses		(5,399,632)	(4,450,530)
M- Income and Expenses From Other and Extraordinary Operations		**(14,058,795)**	**28,177,449**
1- Provisions	47	(14,738,303)	(17,503,017)
2- Rediscounts	47	(723,587)	3,193,602
3- Specified Insurance Accounts		--	--
4- Monetary Gains and Losses		--	--
5- Deferred Taxation (Deferred Tax Assets)	35	18,378,911	44,940,166
6- Deferred Taxation (Deferred Tax Liabilities)	35	(17,871,089)	(3,573,378)
7- Other Income		1,299,886	1,389,921
8- Other Expenses and Losses		(404,613)	(269,845)
9- Prior Year's Income		--	--
10- Prior Year's Expenses and Losses		--	--
N- Net Profit for the Year		**39,402,423**	**(167,022,968)**
1- Profit for the Year		39,402,423	(166,802,069)
2- Corporate Tax Provision and Other Fiscal Liabilities	35	--	(220,899)
3- Net Profit for the Year		39,402,423	(167,022,968)
3.1-Groups Profit/(Loss)		63,341,662	(163,886,498)
3.2-Minority Shares		(23,939,239)	(3,136,470)
4- Monetary Gains and Losses		--	--

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

(Currency: Turkish Lira (TL))

	Note	Audited Current Period 31 December 2012	Audited Prior Period 31 December 2011
A. Cash flows from operating activities			
1. Cash provided from insurance activities		2,298,465,231	1,912,099,831
2. Cash provided from reinsurance activities		1,077,980,190	1,106,563,217
3. Cash provided from private pension business		--	--
4. Cash used in insurance activities		(2,422,921,501)	(1,869,713,526)
5. Cash used in reinsurance activities		(1,037,514,671)	(1,023,982,126)
6. Cash used in private pension business		--	--
7. Cash provided from operating activities		**(83,990,751)**	**124,967,396**
8. Interest paid		--	--
9. Income taxes paid		--	(6,693,463)
10. Other cash inflows		83,025,305	39,436,254
11. Other cash outflows		(38,062,266)	(47,664,005)
12. Net cash provided from operating activities		**(39,027,712)**	**110,046,182**
B. Cash flows from investing activities			
1. Proceeds from disposal of tangible assets		212,446	96,054
2. Acquisition of tangible assets	6, 8	(24,456,849)	(16,603,208)
3. Acquisition of financial assets	11	(1,058,049,202)	(1,043,369,497)
4. Proceeds from disposal of financial assets		1,087,350,189	1,281,795,131
5. Interests received		222,369,761	136,071,854
6. Dividends received		14,502,250	5,507,930
7. Other cash inflows		33,288,008	65,415,799
8. Other cash outflows		(429,214,879)	(329,404,536)
9. Net cash provided by / (used in) investing activities		**(153,998,276)**	**99,509,527**
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)
5. Other cash inflows		--	--
6. Other cash outflows		--	--
7. Net cash provided by financing activities		**--**	**(40,282,072)**
D. Effect of exchange rate fluctuations on cash and cash equivalents		**(89,512)**	**876,846**
E. Net increase /(decrease) in cash and cash equivalents		**(193,115,500)**	**170,150,483**
F. Cash and cash equivalents at the beginning of the year	**14**	**1,076,406,738**	**906,256,255**
G. Cash and cash equivalents at the end of the year	**14**	**883,291,238**	**1,076,406,738**

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

(Currency: Turkish Lira (TL))

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 Before Minority Shares	Minority Share	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 (A1+A2)		90,000,000	--	--	--	--	--	(90,000,000)	--	--	--	--	--	--
1- In cash		--	--	--	--	--	--	--	--	--	--	--	--	--
2- From reserves		*90,000,000*	--	--	--	--	--	*(90,000,000)*	--	--	--	--	--	--
B- Purchase of own shares		--	--	--	--	--	--	--	--	--	--	--	--	--
C- Gains or losses that are not included in the statement of income		--	--	--	--	--	--	--	--	--	--	--	--	--
D – 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**

Audited Changes in Equity – 31 December 2012

	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 Before Minority Shares	Minority Share	Total
I - Balance at the end of the previous 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**
A- Capital increase (A1+A2)		--	--	--	--	--	--	--	--	--	--	--	--	--
1- In cash		--	--	--	--	--	--	--	--	--	--	--	--	--
2- From reserves		--	--	--	--	--	--	--	--	--	--	--	--	--
B- Purchase of own shares		--	--	--	--	--	--	--	--	--	--	--	--	--
C- Gains or losses that are not included in the statement of income		--	--	--	--	--	--	--	--	--	--	--	--	--
D – Gains or losses that are not included in the statement of income		--	--	--	--	--	--	--	--	--	--	--	--	--
E – Change in the value of financial assets		--	--	47,198,433	--	--	--	--	--	--	--	47,198,433	16,624,903	63,823,336
F – Currency translation adjustments		--	--	--	--	1,778,491	--	--	--	--	--	1,778,491	--	1,778,491
G – Other gains or losses		--	--	--	--	--	--	--	--	--	--	--	--	--
H – Inflation adjustment differences		--	--	--	--	--	--	--	--	--	--	--	--	--
I – Net profit for the year		--	--	--	--	--	--	--	--	63,341,662	--	63,341,662	(23,939,239)	39,402,423
J – Other reserves and transfers from retained earnings		--	--	--	--	--	1,462,629	884,793	3,381,562	163,886,498	(169,615,482)	--	--	--
K – Dividends paid		--	--	--	--	--	--	--	--	--	--	--	--	--
II - Balance at the end of the year – 31 December 2012	**15**	**615,000,000**	**--**	**51,655,758**	**--**	**(3,588,736)**	**75,456,222**	**45,217,862**	**(23,636,913)**	**63,341,662**	**(162,597,232)**	**660,848,623**	**263,807,337**	**924,655,960**

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

(Currency: Turkish Lira (TL))

	Note	Current Period 31 December 2012 (**)	Prior Period 31 December 2011
I. DISTRIBUTION OF THE PERIOD PROFIT (*)			
1.1. PERIOD PROFIT/ (LOSS)		98,348,818	(144.516.090)
1.2. TAXES AND DUTIES PAYABLE	35	--	220.899
1.2.1. Corporate Tax (Income Tax)	35	--	220.899
1.2.2. Income Tax Deductions		--	--
1.2.3. Other Taxes and Legal Duties		--	--
A. CURRENT PERIOD PROFIT/ LOSS (1.1 – 1.2)		**98,348,818**	**(144.736.989)**
1.3. ACCUMULATED LOSSES (-)		(144,736,989)	--
1.4. FIRST LEGAL RESERVES (-)		--	--
1.5. OTHER STATUTORY RESERVES (-)		--	--
B. NET PROFIT AVAILABLE FOR DISTRIBUTION [(A - (1.3 + 1.4 + 1.5)]		**(46.388.171)**	**--**
1.6. FIRST DIVIDEND TO SHAREHOLDERS (-)		--	--
1.6.1. To owners of ordinary shares		--	--
1.6.2. To owners of privileged shares		--	--
1.6.3. To owners of redeemed shares		--	--
1.6.4. To holders profit sharing bonds		--	--
1.6.5. To holders of profit and loss sharing certificates		--	--
1.7. DIVIDENDS TO PERSONNEL (-)		--	--
1.8. DIVIDENDS TO FOUNDERS (-)		--	--
1.9. DIVIDENDS TO BOARD OF DIRECTORS (-)		--	--
1.10. SECOND DIVIDEND TO SHAREHOLDERS (-)		--	--
1.10.1. To owners of ordinary shares		--	--
1.10.2. To owners of privileged shares		--	--
1.10.3. To owners of redeemed shares		--	--
1.10.4. To holders profit sharing bonds		--	--
1.10.5. To holders of profit and loss sharing certificates		--	--
1.11. SECOND LEGAL RESERVES(-)		--	--
1.12. STATUTORY RESERVES(-)		--	--
1.13. EXTRAORDINARY RESERVES		--	--
1.14 OTHER RESERVES		--	--
1.15 SPECIAL FUNDS		--	--
II. DISTRIBUTION OF RESERVES		**--**	**--**
2.1. DISTRIBUTED RESERVES		--	--
2.2. SECOND LEGAL RESERVES (-)		--	--
2.3. DIVIDENDS TO SHAREHOLDERS (-)		--	--
2.3.1. To owners of ordinary shares		--	--
2.3.2. To owners of privileged shares		--	--
2.3.3. To owners of redeemed shares		--	--
2.3.4. To holders of profit sharing bonds		--	--
2.3.5. To holders of profit and loss sharing certificates		--	--
2.4. DIVIDENDS TO PERSONNEL (-)		--	--
2.5. DIVIDENDS TO BOARD OF DIRECTORS (-)		--	--
III. EARNINGS PER SHARE		**--**	**--**
3.1. TO OWNERS OF ORDINARY SHARES		--	--
3.2. TO OWNERS OF ORDINARY SHARES (%)		--	--
3.3. TO OWNERS OF PRIVILEGED SHARES		--	--
3.4. TO OWNERS OF PRIVILEGED SHARES (%)		--	--
IV. DIVIDEND PER SHARE		**--**	**--**
4.1. TO OWNERS OF ORDINARY SHARES		--	--
4.2. TO OWNERS OF ORDINARY SHARES (%)		--	--
4.3. TO OWNERS OF PRIVILEGED SHARES		--	--
4.4. TO OWNERS OF PRIVILEGED SHARES (%)		--	--

(*) The distribution table is presented unconsolidated basis.

(**) As at 31 December 2012, the Company does not have any distributable profit

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

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements As at 31 December 2012

(Currency: Turkish Lira (TL))

1 General information

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

As at 31 December 2012, the shareholder having direct or indirect control over the shares of Millî Reasürans Türk Anonim Şirketi (the "Company") is Türkiye İş Bankası AŞ Group ("İş Bankası") having 76.64% of the outstanding shares.

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

On 30 September 2010, the Company purchased 35.53% shares of Anadolu Sigorta Anonim Şirketi with nominal value of TL 177,650,110 from İş Bankası amounting to TL 248,710,154. The transaction is realized on the weighted average price on İstanbul Stock Exchange wholesale market. With the purchase, the share of the Company at Anadolu Sigorta increased to 57.31% and investment increased to TL 286,550,106.

The consolidated financial statements as of 31 December 2012 include the Company and its subsidiary Anadolu Sigorta (together with "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 subsidiary of the Company, 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 2012, the Company serves through 2,804 agencies of which 2,726 authorized and 78 unauthorized agencies (31 December 2011: 2,688 authorized and 68 unauthorized, total 2,756).

1.4 Description of the main operations of the Company

The Company and its subsidiary Anadolu Sigorta conduct their 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 Republic of Turkey Prime Ministry-Undersecretariat of Treasury (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 is incorporated in Turkey and operates in insurance branches as mentioned above 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, Anadolu Sigorta 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 2012	31 December 2011
Senior management	15	16
Managers	170	159
Asistant manager	425	371
Officers	235	286
Contracted personnel	226	208
Other personnel	50	50
Total	**1,121**	**1,090**

1.6 Wages and similar benefits provided to the senior management

For the year ended 31 December 2012, wages and similar benefits provided to the senior management including chairman, members of the board of the directors, general manager, general coordinator, and deputy general managers is amounting to TL 8,545,617 (31 December 2011: TL 8,749,675).

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 the consolidated financial information of the Company. Consolidation principles are further discussed in note 2.2 - *Consolidation*.

As at 31 December 2012, the Company owns 57.31% of its subsidiary, Anadolu Sigorta and Anadolu Sigorta is included in the scope of consolidation by line-by-line method. Anadolu Hayat Emeklilik AŞ ("Anadolu Hayat") is associate of Anadolu Sigorta and is consolidated by equity method with share of 21.00% in the consolidated financial statements as at 31 December 2012.

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 Subsequent events

None.

2 Summary of significant accounting policies

2.1 Basis of preparation

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

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 become effective.

Additional paragraph for convenience translation to English

The differences between the accounting principles, as described in the preceding paragraphs, and the accounting principles generally accepted in countries, in which the accompanying 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 Turkish Lira based on "TAS 29 – *Financial Reporting in Hyperinflationary Economies*" as at 31 December 2004. *TAS 29* requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date, and that corresponding figures for previous years be restated in the same terms.

With respect to the declaration of the Turkish Treasury with the article dated 4 April 2005 and numbered 19387, financial statements as of 31 December 2004 are adjusted for the opening balances of 2005 in accordance with the section with respect to inflation accounting of the Capital Markets Board ("CMB") Communiqué No: 25 of Series XI, "Communiqué on Accounting Standards in Capital Market" published in the Official Gazette dated 15 January 2003 and numbered 25290. Inflation accounting is no longer applied starting from 1 January 2005, in accordance with the same declaration of the Turkish Treasury. Accordingly, as at 31 December 2012, non-monetary assets and liabilities and items included in shareholders' equity including paid-in capital recognized or recorded before 1 January 2005 are measured as restated to 31 December 2004 in order to reflect inflation adjustments. Non-monetary assets and liabilities and items included in shareholders' equity including paid-in capital recognized or recorded after 1 January 2005 are measured at their nominal values.

Other accounting policies

The Company recorded premiums, commissions and claims accruals based on the notifications sent by the insurance and reinsurance companies after the closing of their balances. Premiums, commissions and claims accruals are recorded in the accompanying financial statements with the three-month delay. Therefore, related income statement balances include last quarter results for the year ended 31 December 2011 and nine-month results as at and for the period ended 30 September 2012 and accordingly related balance sheet balances as at 31 December 2012 do not reflect the actual position. According to the letter dated 31 August 2010 and numbered B.02.1.HZN.0.10.03.01/42139 sent by the Turkish Treasury to the Company, it is stated that account statements sent by the ceding companies are subject to possible delays and the Turkish Treasury is considered special situations of the reinsurance companies in their regulations.

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

2.1.3 Functional and presentation currency

The accompanying 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.

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, derivative financial instruments and associates which are measured at their fair values unless reliable measures are available.

2.1.6 Accounting policies, changes in accounting estimates and errors

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

Fire and earthquake premiums obtained from foreign reinsurance treaties could not accounted on the basis of branches in the previous years due to limitations imposed by local legislation of the foreign countries, notification characteristics of the treaties and total premiums used by foreign companies in the reconciliation process. Therefore, all premiums obtained from aforementioned treaties are accounted on the fire branch. According to the letter dated 2 August 2011 and numbered B.02.1.HZN.0.10.03.01/38732 sent by the Turkish Treasury to the Company, it is allowed to use average rate calculated over separately reported fire and earthquake premiums for unclassified premiums of proportioned treaties. Furthermore, according to the letter dated 12 August 2011 sent by the Turkish Treasury to the Company, prospective application as at 30 June 2011 effective from 1 January 2011 is allowed since retrospective application is impossible. Accordingly, financial statements prepared as at 31 December 2012, premiums obtained from foreign proportioned treaties are accounted on the basis of average earthquake premium ratio calculated from foreign proportioned treaties over the period of 1 January – 31 December 2012. The same ratio is used for unproportioned reinsurance treaties in accordance with the Communiqué released on 28 July 2010 and numbered 27655 "Communiqué on Amendments to Communiqué on Technical Reserves for Insurance, Reinsurance and Pension Companies and the Related Assets That Should Be Invested Against Those Technical Reserves". Distribution of commissions and claims between the fire and earthquake branches is parallel with the aforementioned method.

According to the letter dated 12 January 2012 and numbered B.02.1.HZN.0.10.03.01/854 sent by the Turkish Treasury to the Company, determination of final claims for the last business year used in IBNR calculation has been changed as at 31 December 2011. Accordingly, the final premium amount earned for the last business year is determined by considering premium development factors since premiums may be accrued in the following years under the terms of the agreements. Based on the calculated final premium amount of the last business year, unearned premium reserves and earned premiums are determined. Aforementioned earned premium amount is multiplied by the average of claim/premium ratio of the previous years to determine final claims amount of the last business year. IBNR is calculated by subtracting the paid and reported claims of the last business year from the final claims amount determined by the aforementioned method. In addition, IBNR amounts reported by 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.

According to 16th article of "Circular on Actuarial Chain Ladder Method (2010/12)" dated 20 September 2010 and announced by Turkish Treasury, ACML calculation should be made through main branches. However, as at 31 December 2012, the Company has calculated ACML reserve for General Losses main branch as two separate subbranches namely agriculture and non agriculture branches. Because, Agriculture and Engineering subbranches under General Losses main branch have different characteristics in conversion process of outstanding losses to paid losses, IBNR calculation of General Losses branch produces unreliable and improper results.

(Currency: Turkish Lira (TL))

2 Summary of significant accounting policies *(continued)*

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

The Company applied to Turkish Treasury on 17 January 2013 with letter numbered 300, so as to receive permission to calculate IBNR reserve for General Losses branch as agriculture and non agriculture subbranches separately. Turkish Treasury has given permission the Company in order to calculate IBNR reserve for General Losses within two subbranches with the letter dated 28 January 2013 and numbered 24179134. As at 31 December 2012, the Company recognised the amount that arised due to change in calculation method for IBNR on General Losses branch.

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

2.2 Consolidation

"Circular Related to the Preparation of the Consolidated Financial Statements of Insurance, Reinsurance and Individual Pension Companies" issued by the Turkish Treasury in the Official Gazette dated 31 December 2008 and numbered 27097 ("the Circular for Consolidation") requires that insurance, reinsurance and individual pension companies issue consolidated financial statements starting from 31 March 2009. The Company consolidated its subsidiary Anadolu Sigorta by using line-by-line method and Andolu Hayat which is associate of Anadolu Sigorta is consolidated by the equity method.

Subsidiaries are entities controlled by the Group. Control exists when the Group 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 the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The subsidiary, Anadolu Sigorta included in consolidation and effective shareholding percentages of the Company are as follows. The information related to the associate of the Company, Anadolu Hayat which is consolidated using equity method is presented in Note 9.

Company	Direct and Indirect Controlling Interest	Direct Controlling Interest	Total Asset	Shareholders' Equity	Prior Period Profit	Current Period Loss
Anadolu Sigorta (consolidated)	57.31%	57.31%	2,352,094,955	610,258,045	4,848,165	(55,790,717)

The Company has not consolidated Miltaş Turizm A.Ş., the subsidiary of the Company, based on the exception specified in the Circular for Consolidation; as the amount of total assets of such subsidiary was below 1% of total assets of the Company. The Company accounted for this subsidiary at cost as of 31 December 2012 and 2011.

Transactions eliminated on consolidation

Anadolu Sigorta's balance sheet and income statement is consolidated by line-by-line method and the book value of Anadolu Sigorta in the Company's accounts and the capital amount in the Anadolu Sigorta accounts are eliminated. Intra-group balances and transactions between the Company and Anadolu Sigorta, and any unrealized income and expenses arising from intra-group transactions, 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 interests

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Net profit or loss of subsidiary, applicable to the non-controlling interest are presented under "Non-controlling interest" account under consolidated statement of income.

2.3 Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, whose operating results are reviewed regularly by the Board of Directors (being chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. As at 31 December 2012, the 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 statement of income of the related year.

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

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

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

(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	4 – 16	6,3 – 33,3
Vehicles	5	20,0
Other tangible assets (includes leasehold improvements)	5 – 10	10,0 – 20,0
Tangible assets acquired through finance leases	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 Emeklilik A.Ş. 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 favorable 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 Company provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables those are not interest earning are measured by discounting of future cash flows less impairment losses, and interest earning loans and receivables are measured at amortized cost less impairment losses

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

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.

In the accompanying consolidated financial statements, Anadolu Hayat associate of the Group has been consolidated by using the equity method of accounting.

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 statement of income. 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 financial assets *(continued)*

Impairment on tangible and intangible assets

On each reportingdate, 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 their fair value.

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

Derivative financial instruments are subsequently remeasured at fair value and positive fair value differences are presented either as "financial assets held for trading" and negative fair value differences are presented as "other financial liabilities" in the accompanying financial statements. All unrealized gains and losses on these instruments are included in the 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 2012 and 2011, the share capital and ownership structure of the Company are as follows:

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

Sources of the capital increases during the year

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

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

There is not any capital increase during the current period.

Privileges on common shares representing share capital

There are no privileges on common shares representing share capital.

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

Registered capital system in the Company

None.

Repurchased own shares by the Company

None.

2 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 (the retrocedant) 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 company, fund or other entity that issues the contract.

As at the reporting date, the Group 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.31 December 2012, the Group has deductible tax losses, amounting to TL 207,529,380 (31 December 2011: 108,450,320 TL).

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

Deferred tax

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

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

In case where gains/losses resulting from the subsequent measurement of the assets are recognized in the 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") and the employees of Anadolu Sigorta are the members of Anadolu Anonim Türk Sigorta Şirketi Memurları Emekli Sandığı ("Anadolu Anonim Pension Fund") which is established in accordance with the temporary Article 20 of the Social Security Act No: 506.

As per the temporary sub article No: 20 of the Article 73 of the Social Security Law, pension funds should be transferred to the Social Security Institution within three years after the publication of the aforementioned Law published in the Official Gazette numbered 26870 and dated 8 May 2008. Decree of the Council of Ministers about two years extending transfer duration, was published in the Official Gazette on 9 April 2011. Based on this, expiration date has been extended to 8 May 2013 from the expiration date on 8 May 2011. On 8 March 2012, "Amendments to the Social Security and General Health Insurance Act Including Certain Laws and Decrees" numbered 28227, was published on Official Gazzette and 4th article of this act changed "two years" phrase as "four years" which takes part on second sentence of first clause of 20th article of the code numbered 5510. Decree of the council of ministers will be published on future and decides on transfer principles.

The cash value of the obligations of the pension fund for each member of the fund including members left the fund as of the transfer date will be calculated according to following assumptions:

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

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

Employee termination benefits

In accordance with existing Turkish Labour Law, the Company is required to make lump-sum termination indemnities to each employee who has completed one year of service with the Company and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. The computation of the liability is based upon the retirement pay ceiling announced by the Government. The applicable ceiling amount as at 31 December 2012 is TL 3,034 (31 December 2011: TL 2,732).

(Currency: Turkish Lira (TL))

2 Summary of significant accounting policies *(continued)*

2.19 Employee benefits *(continued)*

Employee termination benefits *(continued)*

The Company accounted for employee severance indemnities using actuarial method in compliance with the TAS 19 – *Employee Benefits*. The major actuarial assumptions used in the calculation of the total liability as at 31 December 2012 and 2011 are as follows:

	31 December 2012	31 December 2011
Discount rate	3.18% - 3.77%	3.77% - 4.50%
Expected rate of salary/limit increase	4.40% - 5.00%	4.50% - 5.10%
Estimated employee turnover rate	3.94% – 4.08%	2.22% – 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 company. Premiums ceded to retrocession companies are accounted as “written premiums, ceded” in the profit or loss statement. Written premiums are recorded upon the receipt of quarterly statements of accounts from ceding companies in treaties whereas facultative accounts are registered upon the receipt of monthly payrolls.

(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 recognized 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 Company 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 Company 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 24,077,034 (31 December 2011: TL 32,373,486) subrogation receivables and recorded TL 29,416,598 (31 December 2011: TL 39,723,166) *(Note 12)* amount net subrogation and salvage receivables under receivables from main operations. The Group provided allowance for uncollected subrogation receivables amounting to TL 9,137,211 (31 December 2011: TL 4,649,888) *(Note 12)* in accordance with circular.

For the periods ended 31 December 2012 and 2011, salvage and subrogation collected are as follows:

	31 December 2012	**31 December 2011**
Motor vehicles	225,712,489	178,164,179
Third Party liability for motor vehicles (MTPL)	2,874,647	2,550,366
Fire and natural disaster	2,242,715	1,463,679
Transportation	1,849,140	3,235,776
General losses	319,352	317,961
Accident	189,496	67,297
General responsibility	62,772	64,955
Credit	45,000	6,000
Water vehicles	30,096	71,727
Health	23,974	79,300
Legal protection	562	--
Air crafts	--	12,000
Total	**233,350,243**	**186,033,240**

(Currency: Turkish Lira (TL))

2 Summary of significant accounting policies *(continued)*

2.21 Revenue recognition *(continued)*

Subrogation, salvage and quasi income *(continued)*

As at 31 December 2012 and 2011, accrued subrogation and salvage income per branches is as follows:

	31 December 2012	31 December 2011
Motor vehicles	21,335,128	35,020,897
Fire and natural disaster	4,155,750	2,007,084
Third party liability for motor vehicles (MTPL)	3,123,396	1,774,014
Transportation	506,363	642,873
General losses	177,210	131,854
General liability	56,740	6,189
Water vehicles	45,318	14,362
Accident	16,693	125,893
Total	**29,416,598**	**39,723,166**

Commission income and expenses

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

Interest income and expenses

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

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

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 Summary of significant accounting policies *(continued)*

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

2.24 Reserve for unearned premiums

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

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

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

The subsidiary of the Company, Anadolu Sigorta calculated unearned premium reserve in accordance with the basis specified above.

In line with the Communiqué on Technical Reserves, the calculation of unearned premium reserve is performed as follows by the Group: 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.

2 Summary of significant accounting policies *(continued)*

2.24 Reserve for unearned premiums *(continued)*

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

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

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

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

2 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 ACLM method) is compared to test IBNR claims and greater amount is recorded to financial statements are accepted as IBNR claims. Requirement on test IBNR calculation is removed per Communiqué on Amendments to Aforementioned Communiqué is published in Official Gazette no 28356 17 July 2012 dated. It is stated that amount, content and implementation principals of incurred but not reported claims should be determined according to IBNR calculation by ACLM method specified by Turkish Treasury or other methods determined by Turkish Treasury.

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

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

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

(Currency: Turkish Lira (TL))

2 Summary of significant accounting policies *(continued)*

2.25 Provision for outstanding claims *(continued)*

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

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
Air crafts	Standard Chain Ladder	Standard Chain Ladder
Legal protection	Standard Chain Ladder	Standard Chain Ladder
Transportation vehicles (rail)	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 3/2012)	--
Third party liability (water)	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 3/2012)	--
Third party liability (air)	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 3/2012)	Standard Chain Ladder
Breach of trust	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 3/2012)	--
Financial losses	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 3/2012)	Standard Chain Ladder
Credit	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 3/2012)	Standard Chain Ladder
Life	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 3/2012)	--
Third party liability	--	Munich Chain Ladder
Big claim elimination with the Box Plot method	Not performed	Performed

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

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

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

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

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.

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

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

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

(Currency: Turkish Lira (TL))

2 Summary of significant accounting policies *(continued)*

2.25 Provision for outstanding claims *(continued)*

As at 31 December 2012, Anadolu Sigorta, the subsidiary of the Company provided IBNR amounting to gross TL 49,391,050 and reinsurance share TL (7,916,046) using 100% of ACLM result (31 December 2011: test IBNR method, Gross IBNR: TL 65,659,140, reinsurance share: TL (7,538,212)) in the consolidated financial statements.

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 calculated winning ratio from the last five year data set and TL 47,408,492 (31 December 2011: TL 36,906,371) as IBNR and TL 7,007,975 (31 December 2011: TL 4,014,303) as reinsurer's share of IBNR is excluded from outstanding claims reserve balance.

The calculated winning ratio of Anadolu Sigorta, the subsidiary of the Company as at 31 December 2012 is within 15% - 94% range (31 December 2011: 12% - 96%). Winning ratios used in and amounts decreased from provision for outstanding claims are as follows:

	31 December 2012		
Branch	**Winning Ratios Used**	**Gross Amount Decreased**	**Net Amount Decreased**
Third party liability for motor vehicles (MTPL)	25%	20,625,949	18,988,070
General responsibility	25%	14,072,308	13,444,219
Fire and natural disasters	23%	7,139,540	3,272,194
Motor vehicles	24%	2,659,095	2,522,249
Transportation	25%	1,096,929	1,043,413
General losses	15%	784,892	414,504
Water vehicles	25%	646,206	351,391
Accident	24%	377,701	358,605
Legal protection	19%	5,872	5,872
Total		**47,408,492**	**40,400,517**

	31 December 2011		
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**

2 Summary of significant accounting policies *(continued)*

2.25 Provision for outstanding claims *(continued)*

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"

58th and 59th articles and 1st and 2nd 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 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 Company 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 Company 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 financial statements.

The Group classified total of TL 2,452,947 which includes new calculation difference over premiums written under compulsory motor third party liability insurance contracts between 25 February 2011 – 26 August 2011 per "Circular Stated Principals on Implementation Related to Collection of Health Service Fees in Connection with Traffic Accidents" stated by the Turkish Treasury as "Payable to SSI".

The Turkish Treasury informed the Company 7.02% for motor third party liability, 2.08% for compulsory personal accident seat insurance and 15.8% for compulsory transportation liability for traffic accidents occurred before issuance of the aforementioned law. The difference amounting to TL 3,714,668 between the amount informed by the Turkish Treasury and the amount eliminated by the Company is transferred to "Other Technical Expense" as at 31 December 2012 and in accordance with the Turkish Treasury article dated 20 September 2012, amount for the year 2011 is increased by TL 28,776 and recorded in the same account.

2 Summary of significant accounting policies *(continued)*

2.26 Mathematical provisions

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

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

2.27 Reserve for unexpired risk

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

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

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

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

According to the Circular numbered 2011/18, the Company 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.

According to the related test, as at the reporting date, the Group has provided net reserve for unexpired risk amounting to TL 5,894,828 in the accompanying consolidated financial statements (31 December 2011: TL 93,603,413).

2 Summary of significant accounting policies *(continued)*

2.28 Equalization provision

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

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

Equalization provisions are presented under "other technical reserves" within long term liabilities in the accompanying consolidated financial statements. As at the reporting date, the Group has recognized equalization provision amounting to TL 50,420,599 (31 December 2011: TL 34,889,558).

As at 31 December 2012, the Group has deducted TL 14,346,330 (31 December 2011: TL 21,450,751) from equalization provision in consequence of realized earthquake losses.

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

2 Summary of significant accounting policies *(continued)*

2.31 Subsequent events

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

2.32 New standards and interpretations not yet adopted

There are a number of new standards, updates related to the existing standards and interpretations which are not adopted in the preparation of the accompanying financial statements and have not yet entered into force for the accounting period 31 December 2012. TFRS 9 – *Financial instruments*, is published by International Accounting Standards Board in November 2009 as a part of a wider project that aims to bring new regulations to replace TAS 39 – *Financial Instruments: Recognition and Measurement* 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 TFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. An entity shall apply TFRS 13 for annual periods beginning on or after 1 January 2013.

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

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.

2 Summary of significant accounting policies *(continued)*

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

TFRS 11 – *Joint Arrangements;* supersedes IAS 31 – Interests in Joint Ventures; focuses on the rights and obligations of joint arrangements, rather than the legal form. Related standard will be adopted starting from 1 January 2013 and following annual reporting periods.

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 consolidated structured entities. The standard is effective for annual periods beginning on or after 1 January 2013.

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

- IAS 27 – *Separate Financial Statements*; carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. Related change will be adopted starting from 1 January 2013 and following annual reporting periods.
- IAS 28 – *Investments in Associates and joint Ventures*; changes related to jointly controlled entities. Related change will be adopted starting from 1 January 2013 and following annual reporting periods.
- TFRS 7 – *Financial Instruments Explanations –with the change at Clarification of Financial Assets and Debts Standard* provides useful information to the users of financial statements on i) evaluation of impacts and possible effects of clarified transactions on the financial condition of the company and ii) analysis and comparison of financial statements prepared in accordance with TFRS principles and other generally accepted accounting principles. This amendment has not been accepted by the European Union. The amendments will be valid for the accounting years as from 1 January 2013 and for the periods which are within this accounting years. The amendment affects only the explanation principles.
- IAS 32 – *Financial Instruments: Presentation* – The amendment on the Clarification of Financial Assets and Debts aims to clarify the statement "existence of an available and legal right for clarification of the recognized amounts". Additionally TAS 32 clarifies application areas of settlement systems (such as Exchange bureaus) where gross payment is made and where clarification principle is not implemented simultaneously. Amendments will be applied for the accounting periods starting as from 1 January 2014 retrospectively.

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 properties
Note 10 – Reinsurance assets/liabilities
Note 11 – Financial assets
Note 12 – Loans and receivables
Note 17 – Insurance contract liabilities and reinsurance assets
Note 17 – Deferred acquisition costs
Note 19 – Trade and other payables and deferred income
Note 21 – Deferred income taxes
Note 23 – Provision for other liabilities and charges

4 Management of insurance and financial risk

4.1 Management of insurance risk

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

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

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

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

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

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

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

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.

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 risk *(continued)*

Risk tolerance is determined by Board of Directors by considering the Groups 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, company 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 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 2012		
Branches	**Gross total claims liability (*)**	**Reinsurance share of total claims liability**	**Net total claims liability**
Motor vehicles	680,932,168	(895,515)	680,036,653
Motor vehicles liability (MTPL)	390,271,322	(123,724)	390,147,598
Fire and natural disasters	365,105,606	(54,192,967)	310,912,639
Health	227,316,529	(10,006,189)	217,310,340
General losses	224,935,776	(20,081,295)	204,854,481
Water vehicles	36,775,560	(8,602,785)	28,172,775
Accident	28,848,781	(1,149,813)	27,698,968
Transportation	29,282,574	(1,801,313)	27,481,261
General liability	27,675,052	(1,156,924)	26,518,128
Life	6,442,405	(424,101)	6,018,304
Credit	4,625,707	(95,111)	4,530,596
Air crafts	2,692,384	(9,825)	2,682,559
Financial losses	3,874,219	(1,815,453)	2,058,766
Breach of trust	198,400	(234)	198,166
Legal protection	89,463	(243)	89,220
Water Vehicles liability	55,914	--	55,914
Air crafts liability	50,253	--	50,253
Total	**2,029,172,113**	**(100,355,492)**	**1,928,816,621**

	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 (MTPL)	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 liability	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
General 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**

(*) 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 Group'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 analyzed.

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 2012	31 December 2011
Cash and cash equivalents *(Note 14)*	1,646,768,975	1,495,294,074
Receivables from main operations *(Note 12)*	831,903,951	790,518,246
Financial assets and financial investments with risks on policyholders *(Note 11)* (*)	478,428,280	494,389,144
Reinsurer share in provision for outstanding claims *(Note 10), (Note 17)*	79,668,187	78,960,689
Prepaid taxes and funds *(Note 12)*	20,191,743	15,727,306
Income accruals *(Note 12)*	17,791,902	7,164,002
Other receivables *(Note 12)*	2,305,977	2,079,390
Due from related parties *(Note 12)*	1,445,693	90,230
Other current asset *(Note 12)*	956,903	1,309,656
Total	**3,079,461,611**	**2,885,532,737**

(*) Equity shares amounting to TL 225,214,855 are not included (31 December 2011: TL 139,832,291).

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

	31 December 2012		31 December 2011	
	Gross amount	**Provision**	**Gross amount**	**Provision**
Not past due	584,292,638	--	526,941,428	--
Past due 0-30 days	103,804,925	--	109,524,668	--
Past due 31-60 days	19,037,313	--	15,394,908	--
Past due 61-90 days	10,164,521	--	19,541,397	--
More than 90 days (*)	130,560,255	(97,372,576)	117,321,814	(92,288,476)
Total (**)	**847,859,652**	**(97,372,576)**	**788,724,215**	**(92,288,476)**

(*) 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.

(**) Includes TL 61,137,488 (31 December 2011: TL 59,009,229) of untransferred amount collected by intermediaries and TL 29,416,598 (31 December 2010: TL 39,723,166) of subrogation and salvage receivables in the consolidated financial statements. 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 9,137,211 (31 December 2011: TL 4,649,888) are excluded from the table.

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

	31 December 2012	31 December 2011
Provision for receivables from insurance operations at the beginning of the year	92,288,476	80,944,047
Collections during the period *(Note 47)*	(721,494)	(2,189,043)
Impairment losses provided during the period *(Note 47)*	2,637,292	5,021,602
Impairment losses provided for subrogation – salvage receivables during the period *(Note 47)*	3,629,250	7,015,710
Foreign currency translation effect *(Note 47)*	(460,948)	1,496,160
Provision for receivables from insurance operations at the end of the year	**97,372,576**	**92,288,476**

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

Liquidity risk

Liquidity risk is the risk that the 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 insurance and financial risk *(continued)*

4.2 Management of financial risk *(continued)*

Liquidity risk *(continued)*

Maturity distribution of monetary assets and liabilities:

31 December 2012	Carrying amount	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
Assets						
Cash and cash equivalents	1,645,748,238	832,680,548	734,610,173	41,486,491	36,971,026	--
Receivables from main operations	831,903,951	121,146,154	284,891,657	262,225,189	156,601,181	7,039,770
Financial assets and financial investments with risks on policyholders (*)	478,428,280	82,097,037	23,830,664	6,720,483	97,475,848	268,304,248
Other receivables and current assets	41,246,525	36,528,986	1,257,699	754,496	2,705,344	--
Due from related parties	1,445,693	--	1,445,693	--	--	--
Total monetary assets	**2,998,772,687**	**1,072,452,725**	**1,046,035,886**	**311,186,659**	**293,753,399**	**275,344,018**
Liabilities						
Insurance technical provisions (**)	1,117,761,226	97,836,608	176,861,745	32,284,573	32,373,118	778,405,182
Payables arising from main operations	226,720,673	65,237,361	10,369,375	143,652,635	7,461,302	--
Provisions for other risks and expense accruals	69,624,133	3,123,239	20,226,075	--	--	46,274,819
Other liabilities	61,419,283	19,367,684	14,884,995	1,571,951	690,830	24,903,823
Provisions for taxes and other similar obligations	17,222,799	--	17,222,799	--	--	--
Due to related parties	136,523	121,029	--	--	--	15,494
Total monetary liabilities	**1,492,884,637**	**185,685,921**	**239,564,989**	**177,509,159**	**40,525,250**	**849,599,318**

(*) Equity shares amounting to TL 225,214,855 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 insurance and financial risk *(continued)*

4.2 Management of financial risk *(continued)*

Liquidity risk *(continued)*

31 December 2011	**Carrying amount**	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 1 year**
Assets						
Cash and cash equivalents	1,493,918,555	956,441,564	362,038,919	162,121,022	13,317,050	--
Receivables from main operations	790,518,246	151,940,827	291,793,107	214,927,489	125,433,057	6,423,766
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
Other receivables and current assets	26,280,354	16,734,712	7,093,008	803,918	1,648,716	--
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	49,662,125	--	2,661,613	--	--	47,000,512
Other liabilities	43,967,057	16,831,196	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	**1,255,004,364**	**730,603,215**	**186,433,536**	**121,782,372**	**30,818,129**	**185,367,112**

(*) 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.

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

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

31 December 2012	**US Dollar**	**Euro**	**Other currencies**	**Total**
Assets:				
Receivables from main operations	124,642,349	57,735,670	64,247,148	246,625,167
Cash and cash equivalents	142,006,795	25,448,564	13,249,061	180,704,420
Financial assets and financial investments with risks on policyholders	4,257,009	21,825,556	--	26,082,565
Total foreign currency assets	**270,906,153**	**105,009,790**	**77,496,209**	**453,412,152**
Liabilities:				
Payables arising from main operations	(88,733,355)	(38,490,334)	(892,904)	(128,116,593)
Insurance technical provisions (*)	(189,612,066)	(154,181,583)	(65,894,251)	(409,687,900)
Total foreign currency liabilities	**(278,345,421)**	**(192,671,917)**	**(66,787,155)**	**(537,804,493)**
Net on-balance sheet position	**(7,439,268)**	**(87,662,127)**	**10,709,054**	**(84,392,341)**

31 December 2011	**US Dollar**	**Euro**	**Other currencies**	**Total**
Assets:				
Receivables from main operations	107,547,242	95,952,211	77,315,809	280,815,262
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
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**

(*) 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 insurance and financial risk *(continued)*

4.2 Management of financial risk *(continued)*

Market risk *(continued)*

Foreign currency risk (continued)

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

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

Exposure to foreign currency risk

A 10 percent depreciation of the TL against the following currencies as at 31 December 2012 and 2011 would have increased or decreased consolidated 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 2012		31 December 2011	
	Profit or loss	**Equity (*)**	**Profit or loss**	**Equity (*)**
US Dollar	(743,927)	(743,927)	2,496,189	2,496,189
Euro	(8,766,213)	(8,766,213)	(1,743,351)	(1,743,351)
Others	1,070,905	1,070,905	1,186,013	1,186,013
Total, net	**(8,439,235)**	**(8,439,235)**	**1,938,851**	**1,938,851**

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

Exposure to interest rate risk

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

(Currency: Turkish Lira (TL))

4 Management 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 2012	31 December 2011
Financial assets		
Financial assets with fixed interest rates:	*1,725,653,257*	*1,518,038,477*
Cash at banks *(Note 14)* (*)	1,464,942,898	1,248,293,045
Available for sale financial assets – Government bonds – TL *(Note 11)*	131,167,750	77,184,251
Available for sale financial assets – Private sector bonds – TL *(Note 11)*	43,448,497	52,642,644
Financial assets held for trading – reverse repos *(Note 11)*	5,542,173	2,567,331
Financial assets held for trading – Eurobonds *(Note 11)*	4,257,009	22,762,704
Financial assets held for trading – Private sector bonds – TL *(Note 11)*	2,091,292	1,972,631
Financial assets with variable interest rate:	*232,491,016*	*264,624,329*
Available for sale financial assets – Government bonds– TL *(Note 11)*	94,281,348	105,603,821
Held to maturity investments – Government bonds *(Note 11)*	89,590,740	85,608,329
Available for sale financial assets – Private sector bonds – TL *(Note 11)*	28,755,609	32,776,004
Financial assets held for trading – Private sector bonds – TL *(Note 11)*	18,959,449	25,952,038
Financial assets held for trading – Government bonds – TL *(Note 11)*	903,870	14,684,137

(*) Demand deposits amounting to TL 22,774,655 are not included (31 December 2011: TL 25,298,668).

Interest rate sensitivity of the financial instruments

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

	Profit or loss		Equity (*)	
31 December 2012	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Financial assets held for trading	(86,327)	88,387	(233,640)	243,320
Available for sale financial assets	--	--	(5,389,129)	5,768,296
Total, net	**(86,327)**	**88,387**	**(5,622,769)**	**6,011,616**

	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**

(*) Consolidated equity effect also includes profit or loss effect of the changes assumed in interest rates.

4 Management insurance and financial risk *(continued)*

4.2 Management of financial risk *(continued)*

Market risk *(continued)*

Fair value information

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

The Group has classified its financial assets as whether held for trading purpose or available for sale. As at the reporting date, available for sale financial assets and financial assets held for trading are measured at their fair values based on their quoted prices or fair value information obtained from brokers in the accompanying consolidated financial statements. Held to maturity investments with a carrying amount of TL 89,590,740 (31 December 2011: TL 85,608,329) are measured at amortised cost and their fair value amounting to TL 93,727,697 (31 December 2010: TL 86,251,546) as at 31 December 2012 in the consolidated financial statements.

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

Classification relevant to fair value information

TFRS 7 – *Financial instruments: Disclosures* requires the classification of fair value measurements into a fair value hierarchy by reference to the observability and significance of the inputs used in measuring fair value of financial instruments measured at fair value to be disclosed. This classification basically relies on whether the relevant inputs are observable or not. Observable inputs refer to the use of market data obtained from independent sources, whereas unobservable inputs refer to the use of predictions and assumptions about the market made by the 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 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 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Available for sale financial assets (*)	505,894,341	1,312,038	3,272,355	510,478,734
Financial assets held for trading *(Note 11)*	98,287,678	--	--	98,287,678
Total financial assets	**604,182,019**	**1,312,038**	**3,272,355**	**608,766,412**

	31 December 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Available for sale financial assets (*)	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**	**543,396,964**

(*)As at 31 December 2012, securities that are not publicly traded amounting to TL 5,285,983 (31 December 2011: TL 5,216,142) have been measured at cost.

Equity share price risk

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

The effect 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 2012		31 December 2011	
	Profit or loss	**Equity (*)**	**Profit or loss**	**Equity (*)**
Financial assets held for trading	(710,334)	(710,334)	621,262	621,262
Available for sale financial assets	--	(20,955,317)	--	(2,626,374)
Total, net	**(710,334)**	**(21,665,651)**	**621,262**	**(2,005,112)**

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

(Currency: Turkish Lira (TL))

4 Management insurance and financial risk *(continued)*

4.2 Management of financial risk *(continued)*

Gain and losses from financial assets

Gains and losses recognized in the statement of income, net:	31 December 2012	31 December 2011
Interest income from bank deposits	132,023,477	92,846,376
Income from equity shares	44,992,322	18,591,772
Interest income from debt securities classified as available-for-sale financial assets	33,067,280	20,298,918
Foreign exchange gains	19,646,211	55,415,455
Income from investment funds	17,101,774	(2,187,519)
Income from participates	16,999,936	16,463,338
Interest income from debt securities classified as held to maturity financial investments	9,266,300	11,264,781
Income from debt securities classified as held for trading financial assets	6,807,366	9,021,467
Interest income from repos	648,944	355,202
Income from derivative transactions	626,857	20,835,733
Gains transferred from the statement of equity to the statement of income on disposal of available for sale financial assets (*Note 15)*	319,289	22,050,402
Income from subsidiaries	--	2,310
Other	1,240,016	1,061,410
Investment income	**282,739,772**	**266,019,645**
Foreign exchange losses	(30,693,599)	(20,429,120)
Loss from disposal of financial assets	(10,321,479)	(15,604,346)
Loss from valuation of financial assets	(4,837,314)	(19,967,729)
Investment management expenses (including interest)	(585,732)	(678,809)
Loss from derivative transactions	(311,150)	(36,484,299)
Investment expenses	**(46,749,274)**	**(93,164,303)**
Investment income, net	**235,990,498**	**172,855,342**

Financial gains and losses recognized in equity, net:	31 December 2012	31 December 2011
Fair value changes in available for sale financial assets *(Note 15)*	35,626,025	(26,532,700)
Amounts resulted from associates through equity accounted consolidation method *(Note 15)*	11,891,697	(8,742,117)
Gains transferred from the statement of equity to the statement of income on disposal of available for sale financial assets (*Note 15)*	(319,289)	(22,050,402)
Total	**47,198,433**	**(57,325,219)**

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

As at 31 December 2012, minimum required capital of Anadolu Sigorta is TL 611,548,983 in accordance with the calculation from the unconsolidated financial statements of Anadolu Sigorta. As at 31 December 2012, the capital amount of Anadolu Sigorta presented in the unconsolidated financial statements are above the minimum capital requirement amounts.

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.

Business segment

Financial information of the Group is presented on life and non-life basis in the accompanying consolidated financial statements.

Geographical segment

The main geographical segment which the Group operates is Turkey. Hence, the Group has not disclosed report on geographical segments.

(Currency: Turkish Lira (TL))

6 Tangible assets

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

	1 January 2012	**Additions**	**Foreign currency translation effect (*)**	**Disposal**	**31 December 2012**
Cost:					
Investment properties *(Note 7)*	48,325,615	--	--	--	48,325,615
Owner occupied properties	37,745,132	35,542	--	--	37,780,674
Machinery and equipment	25,657,096	674,299	--	(62,435)	26,268,960
Furniture and fixtures	12,334,124	483,512	(15,200)	(267,639)	12,534,797
Motor vehicles	2,309,072	407,024	(9,016)	(192,015)	2,515,065
Other tangible assets (including leasehold improvements)	3,783,569	255,108	--	--	4,038,677
Leased tangible assets	4,339,065	--	--	(172,711)	4,166,354
	134,493,673	**1,855,485**	**(24,216)**	**(694,800)**	**135,630,142**
Accumulated depreciation:					
Investment properties *(Note 7)*	20,357,374	966,511	--	--	21,323,885
Owner occupied properties	13,403,875	755,316	--	--	14,159,191
Machinery and equipment	17,721,482	3,203,656	--	(16,996)	20,908,142
Furniture and fixtures	10,240,433	689,484	(12,728)	(258,818)	10,658,371
Motor vehicles	1,053,263	468,548	(7,239)	(155,225)	1,359,347
Other tangible assets (including leasehold improvements)	2,965,402	289,686	--	--	3,255,088
Leased tangible assets	4,300,067	199	--	(134,360)	4,165,906
	70,041,896	**6,373,400**	**(19,967)**	**(565,399)**	**75,829,930**
Carrying amounts	**64,451,777**				**59,800,212**

(*) 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 2011 is presented below:

	1 January 2011	Additions	Foreign currency translation effect (*)	Disposal	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 tangible 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 tangible 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.

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

There is not any revaluation on tangible assets.

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

(Currency: Turkish Lira (TL))

7 Investment properties

As at 31 December 2012, inflation adjusted cost and carrying amounts of the Group's investment properties are amounting to TL 48,325,615 (31 December 2011: TL 48,325,615) and TL 27,001,730 (31 December 2011: TL 27,968,241), respectively.

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

	31 December 2012 Carrying amount	31 December 2011 Carrying amount	Date of expertise report	Value of expertise report
Operating Center Rental Offices	16,952,313	17,499,404	31 December 2012	76,090,994
Suadiye Fitness Center	4,004,665	4,180,076	31 December 2012	11,462,118
Tunaman Garage	1,759,737	1,826,992	31 December 2012	47,595,420
Villa Office Block	741,137	778,235	31 December 2012	16,203,834
Other Buildings	3,543,878	3,683,534	31 December 2012	37,505,463
Carrying amounts	**27,001,730**	**27,968,241**		**188,857,829**

For the year ended 31 December 2012, the Group has rental income from investment properties amounting to TL 11,204,062 (31 December 2011: TL 9,910,901)

8 Intangible assets

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

	1 January 2012	Additions	Foreign currency translation effects (*)	Disposal	31 December 2012
Cost:					
Other intangible assets	18,607,067	5,220,449	(65,010)	(13,101)	23,749,405
Goodwill	16,250,000	--	--	--	16,250,000
Advances given for intangible assets	14,336,428	17,380,915	--	--	31,717,343
	49,193,495	**22,601,364**	**(65,010)**	**(13,101)**	**71,716,748**
Accumulated amortization:					
Other intangible assets	12,346,494	4,219,426	(64,100)	(13,101)	16,488,719
	12,346,494	**4,219,426**	**(64,100)**	**(13,101)**	**16,488,719**
Carrying amounts	**36,847,001**				**55,228,029**

(*) 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 2011 is presented below:

	1 January 2011	Additions	Foreign currency translation effects (*)	Disposal	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.

9 Investments in associates

	31 December 2012		31 December 2011	
	Carrying value	**Participation rate %**	**Carrying value**	**Participation rate %**
Anadolu Hayat Emeklilik A.Ş.	111,191,977	21.00	91,000,891	21.00
Associates, net	**111,191,977**		**91,000,891**	
Miltaş Turizm Inşaat Ticaret Anonim Şirketi	746,207	77.00	746,207	77.00
Subsidiaries, net	**746,207**		**746,207**	
Financial asset total	**111,938,184**		**91,747,098**	

Name	Total assets	Shareholders' equity	Retained earnings	Profit for the year	Audited	Period
Subsidiaries:						
Miltaş Turizm Inşaat Ticaret AŞ	3,900,883	3,624,103	1,896	121,481	Not audited	31 December 2012
Associates:						
Anadolu Hayat Emeklilik AŞ (consolidated)	7,226,896,280	529,485,605	9,400,159	80,952,075	Audited	31 December 2012

In the current period TL 16,999,936 of income is obtained from associates through equity accounted consolidation method (31 December 2011: TL 16,463,338).

(Currency: Turkish Lira (TL))

10 Reinsurance assets and liabilities

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

Reinsurance assets	**31 December 2012**	**31 December 2011**
Reserve for unearned premiums, ceded *(Note 17)*	187,994,937	154,719,274
Provision for outstanding claims, ceded *(Note 4.2)*, *(Note 17)*	79,668,187	78,960,689
Receivables from reinsurance companies *(Note 12)*	74,030,699	51,045,506
Cash deposited to reinsurance companies	23,442,444	75,250,975
Reinsurers share in the provision for subrogation and salvage receivables	3,622,607	209,801
Total	**368,758,874**	**360,186,245**

There is no impairment losses recognized for reinsurance assets.

Reinsurance liabilities	**31 December 2012**	**31 December 2011**
Payables to the reinsurers related to premiums written *(Note 19)*	133,634,266	123,369,485
Deferred commission income *(Note 19)*	27,576,172	22,962,672
Cash deposited by reinsurance companies	3,464,220	1,856,150
Commission payables to the reinsurers related to written premiums *(Note 23)*	5,290,556	--
Total	**169,965,214**	**148,188,307**

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

	31 December 2012	**31 December 2011**
Premiums ceded during the period *(Note 17)*	(490,334,090)	(398,108,195)
Reserve for unearned premiums, ceded at the beginning of the period *(Note 17)*	(154,719,274)	(103,318,064)
Reserve for unearned premiums, ceded at the end of the period *(Note 17)*	187,994,937	154,719,274
Premiums earned, ceded *(Note 17)*	**(457,058,427)**	**(346,706,985)**
Claims paid, ceded during the period *(Note 17)*	100,355,492	66,517,981
Provision for outstanding claims, ceded at the beginning of the period *(Note 17)*	(78,960,689)	(87,606,721)
Provision for outstanding claims, ceded at the end of the period *(Note 17)*	79,668,187	78,960,689
Claims incurred, ceded *(Note 17)*	**101,062,990**	**57,871,949**
Commission income accrued from reinsurers during the period *(Note 32)*	63,565,624	53,628,348
Deferred commission income at the beginning of the period *(Note 19)*	22,962,672	15,731,429
Deferred commission income at the end of the period *(Note 19)*	(27,576,172)	(22,962,672)
Commission income earned from reinsurers *(Note 32)*	**58,952,124**	**46,397,105**
Changes in provision for outstanding claims, reinsurers' share *(Note 17)*	**(10,618,033)**	**6,059,519**
Total, net	**(307,661,346)**	**(236,378,412)**

(Currency: Turkish Lira (TL))

11 Financial assets

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

	31 December 2012	31 December 2011
Available for sale financial assets	521,562,329	376,998,930
Financial assets held for trading	98,287,678	177,411,788
Held to maturity financial assets	89,590,740	85,608,329
Impairment loss on available for sale financial assets	(5,797,612)	(5,797,612)
Total	**703,643,135**	**634,221,435**

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

	31 December 2012			
	Face value	**Cost**	**Fair value**	**Carrying value**
Debt instruments:				
Private sector bonds - TL	20,380,000	20,399,952	21,050,741	21,050,741
Eurobonds issued by private sector	2,300,000	3,395,963	4,257,009	4,257,009
Government bonds – TL	900,000	912,696	903,870	903,870
Reverse repo		5,541,506	5,542,173	5,542,173
		30,250,117	**31,753,793**	**31,753,793**
Non-fixed income financial assets:				
Equity shares		8,044,323	7,103,342	7,103,342
Investment funds		46,556,887	59,430,543	59,430,543
		54,601,210	**66,533,885**	**66,533,885**
Total financial assets held for trading		**84,851,327**	**98,287,678**	**98,287,678**

	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
Reverse repo		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**

(Currency: Turkish Lira (TL))

11 Financial assets *(continued)*

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

	31 December 2012			
	Face value	**Cost**	**Fair value**	**Carrying value**
Debt instruments:				
Government bonds – TL	204,697,261	212,763,715	225,449,098	225,449,098
Private sector bonds – TL	72,290,271	69,062,598	72,204,106	72,204,106
		281,826,313	**297,653,204**	**297,653,204**
Non-fixed income financial assets:				
Equity shares		171,308,479	223,909,125	223,909,125
Impairment loss on equity shares		--	(5,797,612)	(5,797,612)
		171,308,479	**218,111,513**	**218,111,513**
Total available-for-sale financial assets		**453,134,792**	**515,764,717**	**515,764,717**

	31 December 2011			
	Face value	**Cost**	**Fair value**	**Carrying value**
Debt instruments:				
Government bonds – TL	175,274,876	180,051,524	182,788,072	182,788,072
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		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**

All debt instruments presented above are traded in the capital markets. As at 31 December 2012, equity shares classified as available for sale financial assets with a carrying amount of TL 8,558,337 are not publicly traded (31 December2011: TL 8,438,681).

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 2012, TL 5,797,612 of impairment loss is recognized for equity shares classified as available for sale in the accompanying consolidated financial statements (31 December 2011: TL 5,797,612).

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

Year	**Change in value increase / (decrease)**	**Total increase / (decrease) in value**
2012	47,198,433	51,655,758
2011	(57,325,219)	4,457,325
2010	32,420,063 (*)	61,782,544

(*) Includes TL 9,059,005 resulted from the effect of change in group structure.

(Currency: Turkish Lira (TL))

11 Financial assets *(continued)*

As at 31 December 2012 and 2011, the Group's financial assets held to maturity are as follows:

	31 December 2012			
	Face value	**Cost**	**Fair value**	**Carrying value**
Debt instruments:				
Government bonds – TL	73,661,976	77,463,468	93,727,697	89,590,740
Total financial assets held to maturity	**73,661,976**	**77,463,468**	**93,727,697**	**89,590,740**

	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**

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

	31 December 2012			
	Trading	**Available-for-Sale**	**Held to maturity**	**Total**
Balance at the beginning of the period	**177,411,788**	**371,201,318**	**85,608,329**	**634,221,435**
Unrealized exchange differences on financial assets	(628,171)	--	--	(628,171)
Acquisitions during the period	21,309,949	1,036,739,253	--	1,058,049,202
Disposals (sale and redemption)	(116,471,715)	(970,031,518)	(846,956)	(1,087,350,189)
Change in the fair value of financial assets	16,654,661	33,393,738	--	50,048,399
Change in amortized cost of the financial assets	--	35,107,917	4,829,367	39,937,284
Bonus shares acquired	11,166	9,354,009	--	9,365,175
Balance at the end of the period	**98,287,678**	**515,764,717**	**89,590,740**	**703,643,135**

	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**

(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 2012			
	Face value	**Cost**	**Fair value**	**Carrying value**
Available for sale financial assets – Private sector bonds	58,809,436	55,908,457	58,553,587	58,553,587
Financial assets held for trading – Investment funds		46,556,887	59,430,543	59,430,543
Available for sale financial assets – Equity shares		29,108,447	54,692,598	54,692,598
Total		**131,573,791**	**172,676,728**	**172,676,728**

	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 – Eurobond	5,000,000	7,775,839	9,393,568	9,393,568
Total		**169,399,682**	**194,013,068**	**194,013,068**

As at 31 December 2012 and 2011, financial assets blocked in favour of the Turkish Treasury as a guarantee for the insurance activities are as follows:

	31 December 2012			
	Face value	**Cost**	**Fair value**	**Carrying value**
Held to maturity financial assets *(Note 17)*	64,467,988	67,692,975	81,685,400	78,073,752
Total	**64,467,988**	**67,692,975**	**81,685,400**	**78,073,752**

	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**

(Currency: Turkish Lira (TL))

12 Loans and receivables

	31 December 2012	31 December 2011
Receivables from main operations *(Note 4.2)*	831,903,951	790,518,246
Prepaid taxes and funds *(Note 19), (Note 4.2)*	20,191,743	15,727,306
Income accruals (*Note 4.2)*	17,791,902	7,164,002
Other receivables *(Note 4.2)*	2,305,977	2,079,390
Due from related parties *(Note 4.2)*	1,445,693	90,230
Other current asset *(Note 4.2)*	956,903	1,309,656
Total	**874,596,169**	**816,888,830**
Short-term receivables	874,596,169	816,888,830
Medium and long-term receivables	--	--
Total	**874,596,169**	**816,888,830**

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

	31 December 2012	31 December 2011
Receivables from insurance companies	45,807,302	61,503,208
Receivables from reinsurance companies *(Note 10)*	74,030,699	51,045,506
Receivables from agencies, brokers and intermediaries	43,833,347	58,389,853
Total receivables from reinsurance operations, net	**163,671,348**	**170,938,567**
Receivables from agencies, brokers and other intermediaries	552,722,660	445,019,795
Salvage and subrogation receivables *(Note 2.21)*	29,416,598	39,723,166
Receivables from policyholders	21,026,918	26,870,735
Total receivables from insurance operations, net	**603,166,176**	**511,613,696**
Cash deposited to insurance and reinsurance companies *(Note 4.2)*	74,203,638	112,615,871
Provisions for receivables from insurance operations – subrogation receivables *(Note 2.21)*	(9,137,211)	(4,649,888)
Doubtful receivables from main operations – premium receivables	24,693,112	32,614,226
Provision for doubtful receivables from main operations – premium receivables	(24,693,112)	(32,614,226)
Doubtful receivables from insurance operations – subrogation receivables	72,679,464	59,674,250
Provisions for doubtful receivables from insurance operations – subrogation receivables	(72,679,464)	(59,674,250)
Receivables from main operations	**831,903,951**	**790,518,246**

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

	31 December 2012	31 December 2011
Mortgage notes	73,623,028	75,449,128
Letters of guarantees	63,533,488	56,567,990
Other guarantees	8,583,108	8,460,660
Government bonds and treasury bills	3,083,233	3,055,221
Total	**148,822,857**	**143,532,999**

12 Loans and receivables *(continued)*

Provisions for overdue receivables and receivables not due yet

a) Receivables under legal or administrative follow up (due): TL 24,693,112 for main operations (31 December 2011: TL 32,614,226) and TL 232,377 (31 December 2011: TL 28,088) for other receivables.

b) Provision for premium receivables (due): None (31 December 2011: None).

c) Provision for subrogation receivables: TL 81,816,675 (31 December 2011: TL 64,324,138).

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

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

13 Derivative financial assets

As at 31 December 2012 , the Group does not have derivative financial instruments (31 December 2011: None).

14 Cash and cash equivalents

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

	31 December 2012		**31 December 2011**	
	At the end of the period	**At the beginning of the period**	**At the end of the period**	**At the beginning of the period**
Cash on hand	83,735	75,156	75,156	97,363
Bank deposits	1,487,717,553	1,273,591,713	1,273,591,713	869,200,967
Cheques given and payment orders	(1,104,472)	(1,450,675)	(1,450,675)	(2,687,054)
Bank guaranteed credit card receivables with maturities less than three months	159,051,422	221,702,361	221,702,361	125,750,371
Cash and cash equivalents in the balance sheet	**1,645,748,238**	**1,493,918,555**	**1,493,918,555**	**992,361,647**
Bank deposits – blocked (*)	(125,967,207)	(130,703,265)	(130,703,265)	(81,657,906)
Time deposits with maturities longer than 3 months	(631,832,582)	(280,703,685)	(280,703,685)	--
Interest accruals on banks deposits	(4,657,211)	(6,104,867)	(6,104,867)	(4,447,486)
Cash and cash equivalents presented in the statement of cash flows	**883,291,238**	**1,076,406,738**	**1,076,406,738**	**906,256,255**

(*) As at 31 December 2012 TL 125,966,707 cash collateral kept in favour of the Turkish Treasury as a guarantee for the insurance activities (31 December 2011: TL 130,702,765) *(Note 17).*

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

	31 December 2012	**31 December 2011**
Foreign currency denominated bank deposits		
- time deposits	161,006,017	115,603,858
- demand deposits	19,661,312	16,422,842
Bank deposits in Turkish Lira		
- time deposits	1,303,936,881	1,132,689,187
- demand deposits	3,113,343	8,875,826
Cash at banks	**1,487,717,553**	**1,273,591,713**

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

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

As at 31 December 2012, the issued share capital of the Group is TL 615,000,000 (31 December 2011: TL 615,000,000) and the share capital of the Group consists of 61,500,000,000 (31 December 2011: 61,500,000,000 shares) issued shares with TL 0.01 nominal value each. There are no privileges over the shares of the Group.

The Group 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 Group according to the decision of the General Assembly after the 5th year of the Group. 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 Group 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.

Equity method consolidation

As at 31 December 2012, in the accompanying consolidated financial statements of the Group, Anadolu Hayat, 21% of shares is owned by the Group, is consolidated by using the equity method.

(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 2012	31 December 2011
Legal reserves at the beginning of the period	**73,993,593**	**65,623,606**
Transfer from profit	1,462,629	8,369,987
Legal reserves at the end of the period	**75,456,222**	**73,993,593**

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

	31 December 2012	31 December 2011
Other profit reserves	25,325,325	25,325,325
Extraordinary reserves	17,420,430	14,084,730
Other capital reserves	4,677,381	4,631,519
Subsidiary capital correction	(71,060,049)	(71,060,049)
Total	**(23,636,913)**	**(27,018,475)**

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 at 31 December 2012, tax exempt gain from participation shares and real estate sale amounting to TL 4,677,381 (31 December 2012: TL 4,631,519) is classified as other capital reserves.

Extraordinary reserves

The movement of extraordinary reserves is as follows:

	31 December 2012	31 December 2011
Extraordinary reserves at the beginning of the period	**14,084,730**	**5,656,554**
Transfer from profit	3,335,700	8,428,176
Extraordinary reserves at the end of the period	**17,420,430**	**14,084,730**

15 Equity *(continued)*

Subsidiary capital correction

On 30 September 2010, , the Company purchased 35.53% shares of Anadolu Sigorta Anonim Şirketi with nominal value of TL 177,650,110 from İş Bankası amounting to TL 248,710,154. As Andolu Sigorta and the Company are under common control and when information transfer and structure is considered, Anadolu Sigorta is accepted as a part of the Company's operations. This subsidiary under common control is recorded at cost in the financial statements. In the business combination of subsidiary under common control, the purchasing company is not obliged to, but has the permission to reflect the effects of business combination the prior year financial statements. In business combinations under common control, shares are transferred from one company to the other in the same group and independent third parties are not included in the transaction and purchasing price is not determined on fair value, the application is determined by the management's decision. The Company management decided not to reflect the effects of the business combination in the comparative financial statements. The difference between purchase price and net asset value amounting to TL (71,060,049), is recorded under "Subsidiary Capital Correction" account under equity.

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.

As at 31 December 2012, the earthquake provision provided in accordance with this circular is TL 25,325,325 (31 December 2011: TL 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 2012, total amount of statutory reserves allocated as mentioned method is TL 45,217,862 (31 December 2011: TL 44,333,069). In the current period TL 884,793 fund is provided from 2011 profit.

Foreign currency translation differences

Foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations. As at 31 December 2012, foreign currency translation reserve amounting to TL 3,588,736 (31 December 2011: TL 5,367,227 loss) stems from Singapore Branch whose functional currency is US Dollars.

Valuation of financial assets

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

	31 December 2012	31 December 2011
Fair value reserves at the beginning of the period	**4,457,325**	**61,782,544**
Change in the fair value during the period *(Note 4,2)*	35,626,025	(26,532,700)
Resulted from equity accounted associate *(Note 4,2)*	11,891,697	(8,742,117)
Net gains transferred to the statement of income *(Note 4,2)*	(319,289)	(22,050,402)
Fair value reserves at the end of the period	**51,655,758**	**4,457,325**

16 Other reserves and equity component of DPF

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

As at 31 December 2012 and 2011, the 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 Company makes calculation of the related insurance technical provisions accordance with the Insurance Legislation and reflects them into financial statements as mentioned in Note 2 – *Summary of significant accounting policies.*

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

	31 December 2012	31 December 2011
Reserve for unearned premiums, gross	1,467,375,284	1,379,683,883
Reserve for unearned premiums, ceded *(Note 10)*	(187,994,937)	(154,719,274)
Reserve for unearned premiums, SSI share	(20,200,015)	(14,079,233)
Reserves for unearned premiums, net	**1,259,180,332**	**1,210,885,376**
Provision for outstanding claims, gross	1,197,429,413	1,035,991,135
Provision for outstanding claims, ceded *(Note 10)*	(79,668,187)	(78,960,689)
Provision for outstanding claims, net	**1,117,761,226**	**957,030,446**
Provision for outstanding claims, gross	10,561,921	108,888,539
Provision for outstanding claims, ceded	(4,667,093)	(15,285,126)
Provision for outstanding claims, net	**5,894,828**	**93,603,413**
Equalization provision, net (*)	50,420,599	34,889,558
Other provisions	--	5,413,605
Other technical provisions, net	**50,420,599**	**40,303,163**
Life mathematical provisions	**1,020,079**	**1,377,701**
Total technical provisions, net	**2,434,277,064**	**2,303,200,099**
Short-term	2,383,856,465	2,262,896,936
Medium and long-term	50,420,599	40,303,163
Total technical provisions, net	**2,434,277,064**	**2,303,200,099**

(*) Net losses (after reinsurance resulted from earthquakes occurred in 2012 amounting to TL 14,346,330 are decreased from prior periods' equalization provision based on regulation (2011: TL 21,450,751).

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

Reserve for unearned premiums	**31 December 2012**			
	Gross	**Ceded**	**SSI Share**	**Net**
Reserve for unearned premiums at the beginning of the period	1,379,683,883	(154,719,274)	(14,079,233)	1,210,885,376
Premiums written during the period	3,184,558,637	(490,334,090)	(43,862,878)	2,650,361,669
Premiums earned during the period	(3,096,867,236)	457,058,427	37,742,096	(2,602,066,713)
Reserve for unearned premiums at the end of the period	**1,467,375,284**	**(187,994,937)**	**(20,200,015)**	**1,259,180,332**

(Currency: Turkish Lira (TL))

17 Insurance liabilities and reinsurance assets *(continued)*

	31 December 2011			
Reserve for unearned premiums	**Gross**	**Ceded**	**SSI Share**	**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	(398,108,195)	(23,974,143)	2,406,577,816
Premiums earned during the period	(2,479,157,380)	346,706,985	9,894,910	(2,122,555,485)
Reserve for unearned premiums at the end of the period	**1,379,683,883**	**(154,719,274)**	**(14,079,233)**	**1,210,885,376**

Provision for outstanding claims	31 December 2012		
	Gross	**Ceded**	**Net**
Provision for outstanding claims at the beginning of the period	1,035,991,135	(78,960,689)	957,030,446
Claims reported during the period and changes in the estimations of provisions for outstanding claims provided at the beginning of the period	2,190,610,391	(101,062,990)	2,089,547,401
Claims paid during the period	(2,029,172,113)	100,355,492	(1,928,816,621)
Provision for outstanding claims at the end of the period	**1,197,429,413**	**(79,668,187)**	**1,117,761,226**

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**

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

As the Company is a reinsurance company, there is not any guarantee that should be placed. The details given below are the amounts of guarantees for Anadolu Sigorta AŞ.

	31 December2012		
	Should be placed (**)	**Placed (*)**	**Carrying amount**
Non life:			
Bank deposits *(Note 14)*		125,966,707	125,966,707
Financial assets (*) *(Note 11)*		81,685,400	78,073,752
Total	**190,733,433**	**207,652,107**	**204,040,459**

(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 *(continued)*

	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**

(*) As at 31 December 2012, 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 2012 (31 December 2011) will be through the calculated amounts as of 30 June 2012 (30 June 2011), 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.

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.

(Currency: Turkish Lira (TL))

17 Insurance liabilities and reinsurance assets *(continued)*

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 2012, short-term prepaid expenses amounting to TL 256,579,864 (31 December 2011: TL 247,087,988) consist of deferred production expenses; deferred commission expenses amounting to TL 249,836,313 (31 December 2011: TL 237,989,180) and other prepaid expenses amounting to TL 6,743,551 (31 December 2011: TL 9,098,808). Long-term prepaid expenses amounting TL 564,809 (31 December 2011: TL 561,891) are composed of other prepaid expenses.

	31 December 2012	**31 December 2011**
Deferred commission expenses at the beginning of the period	237,989,180	183,990,768
Commissions accrued during the period *(Note 32)*	566,849,994	522,080,235
Commissions expensed during the period (*)	(555,002,861)	(468,081,823)
Deferred commission expenses at the end of the period	**249,836,313**	**237,989,180**

(*) In accordance with the "Sector Amendment Related with Amendment to Sector Amendment" dated 8 February 2012 and numbered 2011/14, commissions expensed during the period is recognized as commission expense amounting to TL 552,409,765 *(Note 32)* and personnel expense amounting to TL 2,593,096.

Individual pension funds

None.

18 Investment contract liabilities

None.

(Currency: Turkish Lira (TL))

19 Trade and other payables and deferred income

	31 December 2012	**31 December 2011**
Payables from main operations	226,720,673	186,377,182
Other payables	61,419,283	43,967,057
Short/long term deferred income and expense accruals	51,069,573	35,859,337
Taxes and other liabilities and similar obligations	17,222,799	17,827,446
Due to related parties *(Note 45)*	136,523	140,108
Total	**356,568,851**	**284,171,130**
Short-term liabilities	331,568,814	267,380,160
Long-term liabilities	25,000,037	16,790,970
Total	**356,568,851**	**284,171,130**

As at 31 December 2012, other payables amounting to TL 61,419,283 (31 December 2011: TL 43,967,057) consist of treatment cost payables to SSI amounting to TL 32,995,997 (31 December 2011: TL 23,573,354), payables to Tarsim and DASK and outsourced benefits and services amounting to TL 25,207,751 (31 December 2011: TL 17,863,072) and deposits and guarantees received amounting to TL 3,215,535 (31 December 2011: TL 2,530,631).

Short/long term deferred income and expense accruals are comprised of deferred commission income amounting to TL 27,576,172 (31 December 2011: TL 22,962,672) *(Note 10)*. Expense accruals and deferred income details are presented below:

	31 December 2012	**31 December 2011**
Personnel premium provision	7,132,375	6,384,313
Sliding scale commission provision *(Note 10)*	5,290,556	--
Security fund provision	4,110,519	1,613,569
Personnel salary increase provision	4,050,000	--
Agency remuneration provision	2,650,000	4,685,000
Deferred rent income	144,087	186,483
Other accruals	115,864	27,300
Deferred income and expense accruals	**23,493,401**	**12,896,665**

Payables arising from main operations of the Group as at 31 December 2012 and 2011 are as follows:

	31 December 2012	**31 December 2011**
Payables to reinsurance companies *(Note 10)*	133,634,266	123,369,485
Payables to agencies, brokers and intermediaries	24,690,781	24,551,738
Cash deposited by insurance and reinsurance companies	4,233,782	2,694,464
Total payables arising from insurance operations	**162,558,829**	**150,615,687**
Payables arising from other operating activities	64,161,844	35,761,495
Payables arising from main operations	**226,720,673**	**186,377,182**

Corporate tax liabilities and prepaid taxes are disclosed below:

	31 December 2012	**31 December 2011**
Corporate tax liabilities	--	(220,899)
Taxes paid during the period	20,191,743	15,948,205
Corporate tax assets, net	**20,191,743**	**15,727,306**

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

None.

(Currency: Turkish Lira (TL))

20 Financial liabilities

None (31 December 2011: None).

21 Deferred taxes

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

	31 December 2012 Deferred tax assets / (liabilities)	31 December 2011 Deferred tax assets / (liabilities)
Carried forward tax losses *(Not 2.18)*	41,505,876	20,494,761
Reserve for unexpired risks	1,178,966	18,720,683
Provision for the pension fund deficits	6,219,079	5,034,049
Equalization provision	4,209,203	2,353,631
Provisions for employee termination benefits	3,205,693	2,500,740
Other provisions	3,892,198	3,566,952
Provision for subrogation receivables	1,827,442	929,978
Additional provisions for outstanding claims through actuarial chain ladder method	--	7,890,185
Discount of receivables and payables	(314,171)	(71,798)
Difference in depreciation methods on tangible and intangible assets between tax regulations and the Reporting Standards	(454,134)	(390,820)
Income accruals	(2,943,399)	(220,005)
Subrogation receivables from third parties	(1,999,672)	(1,364,347)
Valuation differences in financial assets	(2,878,481)	2,723,698
Other	116,780	(3,749,164)
Deferred tax assets, net	**53,565,380**	**58,418,543**

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

	31 December 2012
31 December 2016	130,176,518
31 December 2017	77,352,862
Total	**207,529,380**

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

	31 December 2012	31 December
Opening balance at 1 January	**58,418,543**	**10,947,986**
Recognized in profit or loss	507,822	41,366,788
Recognized in equity	(5,360,985)	6,103,769
Closing balance at 31 December	**53,565,380**	**58,418,543**

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") and the employees of Anadolu Sigorta are the members of Anadolu Anonim Türk Sigorta Şirketi Memurları Emekli Sandığı ("Pension Fund of Anadolu Anonim Türk Sigorta Şirketi") which has been founded in accordance with the Article 20 of the Social Securities Act No: 506.

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

Following annulment of the temporary Article 23 of the Banking Law, the new law "Amendments to the Social Security and General Health Insurance Act Including Certain Laws and Decrees" was published in the Official Gazette dated 8 May 2008 and came into force. The new law requires transfer of the participants or beneficiaries of pension funds to Social Security Institution as at the effective date of the Act within 3 years and prescribe the extension period of the transfer as maximum of two years upon the order of the Cabinet. Accordingly, the three-year period expired on 8 May 2011 was extended to the 8 May 2013. On 8 March 2012, "Amendments to the Social Security and General Health Insurance Act Including Certain Laws and Decrees" numbered 28227, was published on Official Gazzette and 4th article of this act changed "two years" phrase as "four years" which takes part on second sentence of first clause of 20th article of the code numbered 5510. In accordance with the Act, as of the transfer date, present value of the liabilities will be determined by considering the income and expense of the pension fund.

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

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

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

b) uncovered other rights and compensations of participants or beneficiaries of pension funds should be covered by the entities who transfer the funds.

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

The technical financial position of the Milli Reasürans Pension Fund is audited by the registered actuary in accordance with the Article 21 of the Insurance Law and Actuary Act. As per the calculations based on the above mentioned assumptions, actuarial and technical deficit amounting to TL 31,095,395 (31 December 2011: TL 25,170,247) is accounted as "Provision for pension fund deficits" in the accompanying 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 2012 and 2011, technical deficit from pension funds comprised the following:

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

Plan assets are comprised of the following items:

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

Up to date, as per the actuarial calculation performed, there has not been any deficit in Anadolu Anonim Türk Sigorta Şirketi Memurları Emekli Sandığı (Pension Fund of Anadolu Anonim Türk Sigorta Şirketi), which has been founded in accordance with the Article 20 of the Social Securities Act No: 506 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 2012 and 2011; the provisions for other risks are disclosed as follows:

	31 December 2012	31 December 2011
Provision for pension fund deficits *(Note 22)*	31,095,395	25,170,247
Provision for employee termination benefits	15,179,424	11,781,696
Provision for unused vacation	849,038	722,001
Total provision for other risks	**47,123,857**	**37,673,944**

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

	31 December 2012	31 December 2011
Provision at the beginning of the period	11,781,696	9,818,559
Interest cost *(Note 47)*	891,010	725,997
Service cost *(Note 47)*	1,153,245	812,257
Payments during the period *(Note 47)*	(1,389,111)	(1,489,617)
Actuarial differences *(Note 47)*	2,742,584	1,914,500
Provision at the end of the period	**15,179,424**	**11,781,696**

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*.

(Currency: Turkish Lira (TL))

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 2012		31 December 2011	
	Life	**Non-Life**	**Life**	**Non-Life**
Claims paid, net off reinsurers' share	(6,018,305)	(1,922,798,316)	(6,823,372)	(1,565,776,973)
Changes in provision for outstanding claims, net off reinsurers' share	(326,893)	(160,403,887)	146,367	(261,576,405)
Changes in reserve for unearned premium, net off reinsurers' share	344,181	(48,639,137)	(452,266)	(283,570,065)
Change in equalization provision	(252,279)	(15,278,762)	(197,964)	(2,049,096)
Change in life mathematical provisions, net off reinsurers' share	357,622	--	(184,915)	--
Changes in reserve for unexpired risks, net off reinsurers' share	--	87,708,585	--	(80,448,452)
Total	**(5,895,674)**	**(2,059,411,517)**	**(7,512,150)**	**(2,193,420,991)**

30 Investment contract benefits

None.

31 Other expenses

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

32 Operating expenses

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

	31 December 2012		31 December 2011	
	Life	**Non life**	**Life**	**Non life**
Commission expenses *(Note 17)*	7,330,952	545,078,813	7,376,332	460,705,491
Commissions to the intermediaries accrued during the period (Note 17)	*7,235,972*	*557,020,926*	*7,495,192*	*514,585,043*
Changes in deferred commission expenses (Note 17)	*94,980*	*(11,942,113)*	*(118,860)*	*(53,879,552)*
Employee benefit expenses *(Note 33)*	827,918	115,463,359	722,235	101,105,255
Foreign exchange losses	87,332	17,272,937	121,180	13,427,668
Administration expenses	30,710	63,641,754	28,382	58,991,576
Commission income from reinsurers *(Note 10)*	(93,781)	(58,858,343)	(108,567)	(46,288,538)
Commission income from reinsurers accrued during the period (Note 10)	*(89,453)*	*(63,476,171)*	*(124,076)*	*(53,504,272)*
Change in deferred commission income (Note 10)	*(4,328)*	*4,617,828*	*15,509*	*7,215,734*
Advertising and marketing expenses	--	15,280,987	--	15,926,567
Outsourced benefits and services	--	1,559,160	--	1,898,666
Other	40	59,867,491	27	34,292,170
Total	**8,183,171**	**759,306,158**	**8,139,589**	**640,058,855**

(Currency: Turkish Lira (TL))

33 Employee benefit expenses

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

	31 December 2012		31 December 2011	
	Life	**Non life**	**Life**	**Non life**
Wages and salaries	659,698	83,214,272	584,368	72,995,363
Employer's share in social security premiums	103,623	16,184,527	98,167	13,594,672
Pension fund benefits	64,597	3,442,380	39,700	3,208,023
Other	--	12,622,180	--	11,307,197
Total *(Note 32)*	**827,918**	**115,463,359**	**722,235**	**101,105,255**

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 recognized as expense in the consolidated statement of income.

35 Income tax expense

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

	31 December 2012	**31 December 2011**
Corporate tax expense:		
Corporate tax provision	--	(220,899)
Deferred taxes:		
Origination and reversal of temporary differences	507,822	41,366,788
Total tax income / (expense)	**507,822**	**41,145,889**

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 2012 and 2011 is as follows:

	31 December 2012		31 December 2011	
Profit/(loss) before taxes	**38,894,601**	**Tax rate (%)**	**(208,168,857)**	**Tax rate (%)**
Taxes on income per statutory tax rate	7,778,920	20.00	(41,633,771)	(20.00)
Tax exempt income	(6,852,652)	(17.62)	(4,232,844)	(2.03)
Prior period foreign branch financial losses recognized in current year deferred tax	(4,345,240)	(11.17)	--	--
Non-deductible expenses	2,911,150	7.48	4,720,726	2.26
Total tax expense / (income) recognized in consolidated profit or loss	**(507,822)**	**(1.31)**	**(41,145,889)**	**(19.77)**

36 Net foreign exchange gains

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

(Currency: Turkish Lira (TL))

37 Earnings per share

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

	31 December 2012	**31 December 2011**
Net profit / (loss) for the period	39,402,423	(167,022,968)
Weighted average number of shares	61,500,000,000	61,500,000,000
Earnings / (loss) per share (TL)	0.00064069	(0.00271582)

38 Dividends per share

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

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

- 10% of legal reserve,

- 10% of first dividend to shareholders,

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

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

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

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

39 Cash generated from operations

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

40 Convertible bond

None.

(Currency: Turkish Lira (TL))

41 Redeemable preference shares

None.

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 2012, total amount of the claims that the Group face is TL 583,233,000 in gross (31 December 2011: TL 380,750,000), The Group provided provision for outstanding claims in the consolidated financial statements by considering collateral amounts.

Review conducted to "Anatolian Anonymous The Turkish Insurance Company of Members Solidarity Foundation" which was established pursuant to the provisions of the Turkish Commercial Law and Civil Law by Anonymous Turkish Anadolu Insurance Company to fulfill the obligations in relation payments by the inspectors of the Board of Tax Audit. As a result of this investigation, the related liability of the amount charged on the basis of taxation and therefore inspection reports was held on charges should be subject to income withholding tax and stamp duty for the periods 2007 and 2008. Based on the report tax penalty began to process making assessments in suspended the income tax / stamp duty to our company. Suspended tax assessment is amounting to TL 2,911,506 million for the period 2007 and 2008. As at 31 December 2012, there is no provision in related subject on the accompanying financial statements.

43 Commitments

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

	31 December 2012	**31 December 2011**
Within one year	6,466,154	6,053,411
Between one to five years	10,705,568	15,536,216
More than 5 years	--	--
Total of minimum rent payments	**17,171,722**	**21,589,627**

44 Business combinations

None.

(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 2012 and 2011 are as follows:

	31 December 2012	**31 December 2011**
Bonds issued by İş Bankası A.Ş. *(Note 11)*	58,029,245	69,581,871
Equity shares of the related parties *(Note 11)*	54,692,598	40,564,575
Investment funds founded by İşbank GmbH *(Note 11)*	21,825,556	14,524,036
Investment funds founded by İş Portföy Yönetimi A.Ş. (*Note 11)*	18,706,800	16,828,300
Investment funds founded by İş Bankası A.Ş. *(Note 11)*	13,831,486	35,896,157
Investment funds founded by İş Yatırım Menkul Değerler A.Ş. *(Note 11)*	5,066,701	5,386,761
Bonds issued by İş Finansal Kiralama A.Ş. *(Note 11)*	524,342	1,837,800
Eurobonds issued by İş Bankası A.Ş. *(Note 11)*	--	9,393,568
Financial assets	**172,676,728**	**194,013,068**
Türkiye İş Bankası A.Ş	726,921,768	870,665,914
Other	74,565,612	3,893,497
Banks	**801,487,380**	**874,559,411**
Türkiye İş Bankası A.Ş	50,912,248	43,203,869
Şişecam Sigorta Aracılık Hizmetleri A.Ş.	5,022,620	4,582,677
Allianz Sigorta A.Ş.	1,147,259	592,698
Axa Sigorta A.Ş.	233,841	8,536,885
Anadolu Hayat	124,620	163,055
İstanbul Umum Sigorta A.Ş.	76,182	71,363
Ergo Sigorta A.Ş.	18,245	18,166
AvivaSa Emeklilik A.Ş	--	4,507
Receivables from main operations	**57,535,015**	**57,173,220**
Due from personnel	1,445,693	90,230
Due from related parties	**1,445,693**	**90,230**
Türkiye İş Bankası A.Ş.	5,713,391	347,710
Ergo Sigorta A.Ş	5,887,219	100,062
Güven Sigorta T.A.Ş	457,086	414,322
Groupama Sigorta A.Ş.	441,295	153,603
Şişecam Sigorta Aracılık Hizmetleri A.Ş.	316,169	19,543,199
Axa Sigorta A.Ş.	49,762	53,154
İstanbul Umum Sigorta A.Ş.	39,554	41,368
Allianz Sigorta A.Ş.	37,236	41,041
Anadolu Hayat	--	228
Payables from main operations	**12,941,712**	**20,694,687**
Due to shareholders	87,944	112,112
Due to other related parties	48,579	27,996
Due to related parties	**136,523**	**140,108**

(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 2012 and 2011 are as follows:

	31 December 2012	31 December 2011
İş Bankası	207,616,974	170,228,945
Axa Sigorta AŞ	36,830,622	26,000,637
Şişecam Sigorta Aracılık Hizmetleri A.Ş.	35,458,879	31,293,362
Ergo Sigorta AŞ	32,774,685	41,191,693
Allianz Sigorta AŞ	25,933,759	23,152,192
Groupama Sigorta AŞ	7,800,594	7,254,713
Anadolu Hayat	2,408,205	1,984,888
AvivaSa Emeklilik AŞ	614,282	512,540
Groupama Sigorta AŞ (Güven Sigorta TAŞ)	87	139,156
Premiums received	**349,438,087**	**301,758,126**
Ergo Sigorta AŞ	50,790	58,915
Groupama Sigorta AŞ	17,606	24,913
Axa Sigorta AŞ	10,434	12,566
Groupama Sigorta AŞ (Güven Sigorta TAŞ)	3,332	4,034
Allianz Sigorta AŞ	57	33
İstanbul Umum Sigorta AŞ	4	12
Premiums ceded	**82,223**	**100,473**
Groupama Sigorta AŞ	15,728	--
Ergo Sigorta AŞ	16,763	--
Axa Sigorta AŞ	7,265	--
Groupama Sigorta AŞ (Güven Sigorta TAŞ)	2,764	--
Allianz Sigorta A.Ş.	4	2
İstanbul Umum Sigorta A.Ş.	--	1
Commissions received	**42,524**	**3**
İş Bankası	20,971,481	18,177,384
Ergo Sigorta A.Ş	8,165,773	9,107,794
Şişecam Sigorta Aracılık Hizmetleri A.Ş.	6,914,223	6,334,995
Allianz Sigorta AŞ	6,401,483	5,876,593
Axa Sigorta AŞ	6,811,293	2,482,614
Groupama Sigorta AŞ	1,486,282	1,131,358
AvivaSa Emeklilik AŞ	375,709	305,743
Anadolu Hayat	231,115	175,706
Groupama Sigorta AŞ (Güven Sigorta TAŞ)	67,137	78,070
Commissions given	**51,424,496**	**43,670,257**

(Currency: Turkish Lira (TL))

45 Related party transactions *(continued)*

	31 December 2012	**31 December 2011**
Axa Sigorta AŞ	40,265,158	4,747,237
Ergo Sigorta AŞ	32,858,939	31,597,360
Allianz Sigorta AŞ	14,010,468	16,810,769
Groupama Sigorta AŞ	6,244,647	7,901,921
Groupama Sigorta AŞ (Güven Sigorta TAŞ)	1,173,115	1,560,650
Anadolu Hayat	208,621	59,096
AvivaSa Emeklilik AŞ	28,695	196,477
Claims paid	**94,789,643**	**62,873,510**
Groupama Sigorta AŞ	197,390	226,304
Ergo Sigorta AŞ	129,934	182,117
Axa Sigorta AŞ	110,320	145,983
Groupama Sigorta AŞ (Güven Sigorta TAŞ)	59,022	75,643
İstanbul Umum Sigorta AŞ	11,393	20,022
Allianz Sigorta AŞ	8,849	14,157
Reinsurance's share of claims paid	**516,908**	**664,226**
Allianz Sigorta AŞ	154,583	558,914
Axa Sigorta AŞ	132,307	916,441
Ergo Sigorta AŞ	88,524	453,179
Groupama Sigorta AŞ	6,920	202,070
Anadolu Hayat	784	1,345
AvivaSa Emeklilik AŞ	313	1,417
Groupama Sigorta AŞ (Güven Sigorta TAŞ)	--	1,420
Other income	**383,431**	**2,134,786**
Axa Sigorta AŞ	752,758	86,106
Ergo Sigorta AŞ	397,072	39,732
Allianz Sigorta AŞ	323,688	173,064
Groupama Sigorta AŞ	79,396	55,543
Anadolu Hayat	3,958	200
AvivaSa Emeklilik AŞ	79	39
Groupama Sigorta AŞ (Güven Sigorta TAŞ)	--	42,848
Other expenses	**1,556,951**	**397,532**

46 Subsequent events

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

(Currency: Turkish Lira (TL))

47 Other

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

They are presented in the related notes above.

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

None.

Subrogation recorded in "Off-Balance Sheet Accounts"

None.

Real rights on immovable and their values

None.

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

None.

As at and for the year ended 31 December 2012 and 2011, details of rediscount and provision expenses are as follows:

	31 December 2012	31 December 2011
Provision expense for doubtful receivables *(Note 4.2)* (*)	(5,288,389)	(11,355,896)
Provision for pension fund deficits *(Note 23)*	(5,925,148)	(4,396,992)
Provision expense for employee termination benefits *(Note 23)*	(3,397,728)	(1,963,137)
Provision expenses for unused vacation *(Note 23)*	(127,037)	(93,488)
Other provision expenses *(Note 4.2)* (*)	(1)	306,496
Provision expenses	**(14,738,303)**	**(17,503,017)**

(*) Provision expense stems from foreign exchange translation effect on doubtful receivables from main operations amounting to TL 5,084,100 (31 December 2011: TL 11,344,429) and provision expense on doubtful receivables from other receivables amounting to TL 204,289 *(Note 4.2)* (31 December 2011: TL 11,467).

	31 December 2012	31 December 2011
Rediscount income / (expense) from main operations receivables	(13,699,446)	14,579,097
Rediscount income / (expense) from main operations payables	12,975,859	(11,385,495)
Total of rediscounts	**(723,587)**	**3,193,602**