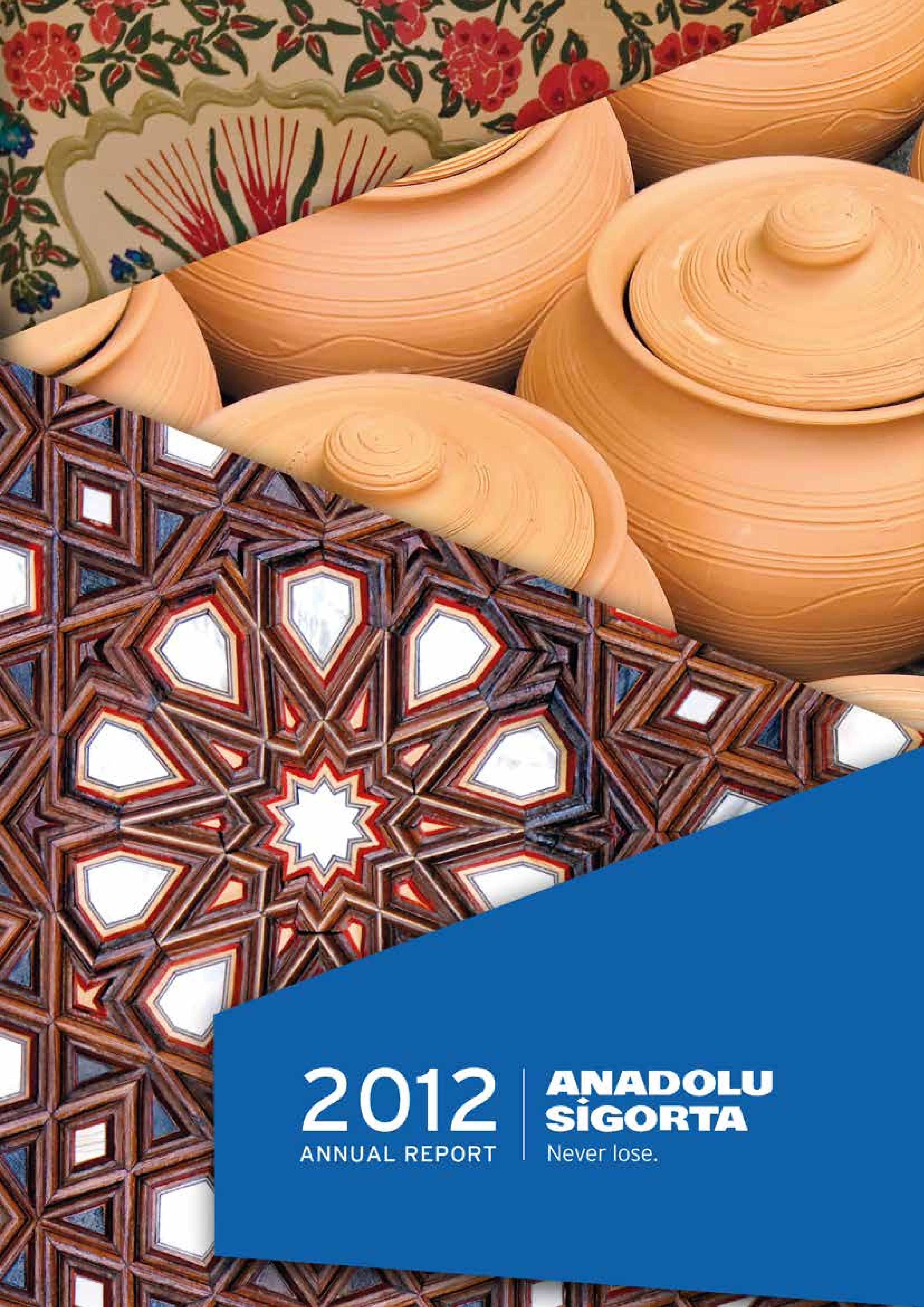


# 2012 ANNUAL REPORT

ANADOLU SİGORTA

Never lose.

CONTENTS

# GENERAL INFORMATION

Anadolu Anonim Türk Sigorta Şirketi
2012 Annual Report.

**Corporate Title**
Anadolu Anonim Türk Sigorta Şirketi

**Website**
www.anadolusigorta.com.tr

**Anadolu Sigorta Trade Registration No:** 4593/557

"Traditional Turkish arts and crafts live in the hands of their masters, and are carried into the future through young masters Trained by them. Developed and sponsored by Anadolu Sigorta, The ten-year project "Bir Usta Bin Usta" (From One Master To One Thousand) focuses every year on five cities and five city-specific crafts that are about to vanish. The project aims to preserve local values through first-hand trainings given by the masters of the crafts. One master becomes one thousand and our arts and crafts survive. Because you never lose with Anadolu Sigorta."

## Directory

### Head Office
Address: Büyükdere Caddesi İş Kuleleri
Kule 2 Kat: 22-26
34330 4. Levent/İSTANBUL
Tel: (+90 212) 350 0 350
Fax: (+90 212) 350 0 355
E-mail: bilgi@anadolusigorta.com.tr

### Corporate Insurance Department
Address: Beytem Plaza
Büyükdere Caddesi No: 20-B
34394 Şişli/İSTANBUL
Tel: (+90 212) 368 38 68
Fax: (+90 212) 350 01 80
E-mail: ksm@anadolusigorta.com.tr

### Motor Claims Department
Address: Beytem Plaza
Büyükdere Caddesi No: 20-1
34394 Şişli/İSTANBUL
Tel: (+90 212) 368 38 88
Fax: (+90 212) 350 01 82
E-mail: otohasar@anadolusigorta.com.tr

### İstanbul Regional Branch
Address: Merter İş Merkezi 2/22
General Ali Rıza Gürcan Caddesi
34173 Merter/İSTANBUL
Tel: (+90 212) 484 24 24
Fax: (+90 212) 350 0 120
E-mail: bolge11@anadolusigorta.com.tr

### Kadıköy Regional Branch
Address: K2 Plaza Sarıkanarya Sokak
No: 14 34742 Kozyatağı/İSTANBUL
Tel: (+90 216) 571 88 00
Fax: (+90 216) 571 88 48
E-mail: bolge12@anadolusigorta.com.tr

### Mediterranean Regional Branch
Address: Konyaaltı Caddesi No: 78
07050 ANTALYA
Tel: (+90 242) 248 26 80
Fax: (+90 242) 241 42 80
E-mail: bolge08@anadolusigorta.com.tr

### Western Anatolia Regional Branch
Address: Atatürk Caddesi 92
Anadolu Sigorta Binası 2
35210 İZMİR
Tel: (+90 232) 455 33 33
Fax: (+90 232) 455 33 43
E-mail: bolge03@anadolusigorta.com.tr

### Middle Black Sea Regional Branch
Address: Kale Mahallesi
Ziya Paşa Sokak No: 4 Kat: 7
55030 İlkadım/SAMSUN
Tel: (+90 362) 435 44 55
Fax: (+90 362) 435 55 50
E-mail: bolge06@anadolusigorta.com.tr

### Southern Anatolia Regional Branch
Address: Reşatbey Mahallesi
62029. Sokak 16/A
01120 Seyhan/ADANA
Tel: (+90 322) 455 32 00
Fax: (+90 322) 455 32 32
E-mail: bolge02@anadolusigorta.com.tr

### Central Anatolia Regional Branch
Address: Cinnah Caddesi Farabi Sokak
No: 43 06690 Kavaklıdere/ANKARA
Tel: (+90 312) 457 17 17
Fax: (+90 312) 457 17 49
E-mail: bolge05@anadolusigorta.com.tr

### Black Sea Regional Branch
Address: Karşıyaka Mahallesi
4 Nolu Sokak No: 479
61040 TRABZON
Tel: (+90 462) 230 61 61
Fax: (+90 462) 230 70 20
E-mail: bolge07@anadolusigorta.com.tr

### Marmara Regional Branch
Address: Odunluk Mahallesi,
Akademi Caddesi, Zeno İş Merkezi, A Blok
No: 10/5 Kat: 1 Daire: No: 6-10
16110 BURSA
Tel: (+90 224) 270 05 55
Fax: (+90 224) 270 05 88
E-mail: bolge04@anadolusigorta.com.tr

### Turkish Republic of Northern Cyprus Branch
Address: Memduh Asaf Sokak 8
Köşklüçiftlik Lefkoşa/KKTC
Tel: (+90 392) 227 95 95
Fax: (+90 392) 227 95 96
E-mail: bolge50@anadolusigorta.com.tr

## CORPORATE PROFILE

In 2012, Anadolu Sigorta expanded its total premium production by 16% year-on-year to TL 2,234 million and controlled a 13% share of the overall market among non-life companies. Anadolu Sigorta pursues its operations via nine regional branches across the nation and one branch in the Turkish Republic of Northern Cyprus. The Company had 915 employees on its payroll as at 31 December 2012.

Anadolu Sigorta registered its highest premium production in the motor vehicles branch with TL 744 million, followed by motor vehicles liability with TL 482 million in 2012. Trailing these two branches, in order, were fire and natural disasters with TL 349 million, illness/health with TL 210 million, general losses with TL 182 million and general liability with TL 69 million.

Turkey's first national insurance company and the pioneer in the sector, Anadolu Sigorta will keep contributing to the advancement of the insurance business in Turkey in the light of its mission and vision. Anadolu Sigorta will remain the insurance company taken as benchmark in the sector and further build on its solid position.

## OUR VISION, OUR MISSION, CORPORATE VALUES

### Our Vision

- To make Anadolu Sigorta the insurance brand preferred by everyone who needs insurance.
- To achieve a strength that makes it a reference point in the worldwide insurance industry as well.

### Our Mission

- In keeping with the deeply-rooted, pioneering, honest, and solid corporate values of Anadolu Sigorta to:
- Lead the sector,
- Help create a broad public awareness of insurance in Turkey,
- Implement a customer-focused approach to service,
- Increase our financial strength to international standards,
- Enhance the value of our Company.

### Our Corporate Values

**A Company Entrenched In History:**
- It was founded in accordance with the instructions given by Mustafa Kemal Atatürk.
- It is Turkey's first national insurance company.
- It has a powerful corporate structure built on its knowledge of insurance accumulated through the years.

**Integrity:**
- It has ethical merits;
- It fulfills its promises definitely;
- It inheres in transparency as principle;
- It never abandons human values.

**Pioneership:**
- Pioneer in creating product;
- Pioneer in service;
- Pioneer in technology;
- With its self-renewing ability preserves its pioneering position;
- It plays a pioneering role in social responsibility.

**Powerful Structure:**
- It has a stable financial power;
- It has an extended and efficient service network;
- It has a sophisticated and high qualified human source;
- It gains power from the synergy created by İşbank.

## THE HISTORICAL DEVELOPMENT OF ANADOLU SİGORTA

### 1925

Anadolu Sigorta was founded on April 1 at the initiative of Atatürk and under the leadership of İşbank, Turkey's first national bank.

### 1961

The first data processing system was set up.

### 1975

Being the leader of national insurance since the onset of the Turkish Republic, Anadolu Sigorta celebrated its 50th anniversary.

### 1983

"Blue Insurance" policies marking the introduction of comprehensive insurance system in Turkey and offering 17 types of cover were put on sale for the first time.

### 1984

Highly acclaimed by the public and the sector, "Insurance of the Future", the most comprehensive life policy ever offered in Turkey until then, was introduced.

### 1986

Representing a new branch in the Turkish insurance business, "Electronic Equipment Insurance" was first started by Anadolu Sigorta.

### 1987

Activities commenced in the agricultural insurance branch.

### 1991

The life branch was transferred to Anadolu Hayat Sigorta, a newly-formed life insurer as required by law.

### 1993

Extending administrative and technical assistance to Günay Anadolu Sigorta, founded and started to operate in Azerbaijan, Anadolu Sigorta became the first Turkish insurance company to set up an international operation.

### 1996

Policies in legal protection insurance branch, another first in our country, were written.

### 1997

Aiming to make the most of the possibilities offered by IT, a "Recon Project" was launched. Services were made more efficient and productive with the inclusion of all services and agencies in the data processing network with online and real-time systems.

### 1999

In order to provide the fastest and most comprehensive service to its policyholders in the aftermath of the disastrous earthquake of 17 August, the Company worked round the clock to provide uninterrupted service.

### 2001

After providing service for over five decades, the Company was relocated from its building in Karaköy to İş Towers, where it would be together with İşbank subsidiaries.

Founded on 1 April 1925 at the initiative of Atatürk, Anadolu Sigorta sustained its pioneering role in the insurance industry throughout its 87-year history.

## 2002

A brand-new era began with the "Maximum Service in Insurance" concept. The Company introduced the service philosophy under one title that it has possessed since its foundation, and once again became the author of a first in the sector.

## 2004

Voted as "the most satisfactory insurance company with its products and services", Anadolu Sigorta received the Active Academy Private Customer Satisfaction Award in Insurance. The Company expanded its service range by taking over the health branch from Anadolu Hayat Emeklilik, which the Company was required by law to give up. Anadolu Sigorta was awarded its ISO 9001: 2000 Quality Management System certification, an endorsement proving that the Company's quality management system complies with international standards.

## 2006

The Company maintained its sectoral leadership in premium production for the fifth consecutive year and realized a premium production in excess of TL 1 billion, undersigning yet another historic result in the history of the Turkish insurance industry. The Company also won the Active Academy Private Customer Satisfaction Award in Insurance for a third time, verifying the success of "Maximum Service".

## 2007

The sector's unrelenting champion in premium production for the last six years, Anadolu Sigorta became the first insurance company in Turkey to exceed the USD 1 billion threshold in total premium production. The Company's approach to quality was rewarded once again with the Active Academy Private Customer Satisfaction Award in Insurance, granted to it for the fourth time.

## 2008

Anadolu Sigorta launched the C2C (Closer to Customer) change program whereby all business processes are reviewed and revised. While the Company increased its profitability through sustainable growth strategy, it also received Active Academy Private Customer Satisfaction Award in Insurance for the fifth consecutive time.

## 2010

The Company celebrated its 85th anniversary.

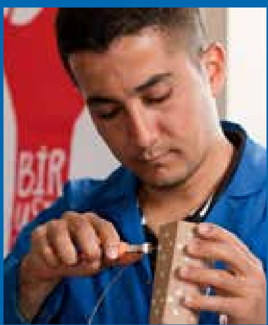
Planned within the frame of the C2C change program, the first set of changes was put into life. The Company launched its new social responsibility project, "Bir Usta Bin Usta" (From One Master to One Thousand), thus contributing to revitalize vanishing professions in Anatolia.

## 2012

The Company received the International Stevie Award and the Golden Sabre Award with its social responsibility project, and the Galaxy, ARC and Vision Awards with its 2011 Annual Report.

# MOTHER-OF-PEARL

MOTHER-OF-PEARL INLAYING
Calling for a delicate mastery passed on from generation to generation, the art of mother-of-pearl inlaying has been extensively used in architecture and ornamentation since the ancient times. The art of mother-of-pearl inlaying had become the most popular calling of the time particularly in the 16th and 17th centuries. However, the westernization movement that began in the 18th Century eroded the significance of the craft in time. Mother-of-pearl inlaying has been part of architecture and decorative arts for centuries. Once the motifs sketched on various wooden decorative items typically made of walnut, oak or ebony are carefully carved, the mother-of-pearl made of the mollusk shells and cut in the same form with the motifs is laid inside the carvings using a hot adherent paste. Brass fibers are used as peripheral decoration to the mother-of-pearl. The motif is sanded first roughly, then finely, and finished with polish.



## MESSAGE FROM THE CHAIRMAN

### Moving into 2013...

There is continued rise in commodity and oil prices despite the slowdown in global economy. The sustained weak global demand limits the overall inflationist pressure of the increase in commodity prices.

Central banks in developed countries attempt to support growth and employment through expansionary monetary policies due to the low inflationist pressure; the low credit supply, however, coupled with the poor public finance restrict growth.

Driven by the unfavorable factors and interactions in developed countries, the growth performance was also restrained in developing countries, leading to a soft landing process.

The uncertainty and lack of confidence fueled by concerns over the sustainability of public debts in the Eurozone persisted throughout 2012.

The additional capital requirement, which emerged as a result of the new regulations in the EU banking system, has been pushing EU to accelerate deleveraging and decrease their credit supply to, and investments in, the peripheral countries that make the weak link in the Eurozone. A key trend observed in 2012 was the discrepancy that got clearer between core and peripheral European countries.

Having been the scene to presidential election in 2012, the US economy is sending out relatively good signals. The draft budget passed by the Senate on 1 January 2013 precluded the risk of a potential adverse effect on growth that would result from a fiscal cliff triggered by the arrangement calling for automatic tax hikes and spending cuts. The bill was subsequently ratified also by the House of Representatives.

Based on its forecasts revised downwards in the World Economic Outlook Report of October 2012, the IMF estimates the growth rate at 3.3% for the world economy in 2012 and projects a rate of 3.7% in 2013.

The Turkish economy, which successfully maintains a soft landing process in this period of increased uncertainties in global economy, is estimated to have grown 3.2% in 2012.

The shrank imports in parallel with the slumped domestic demand and investments, accompanied by the growth composition that developed in favor of exports, brought along a downturn in the current deficit. 10% in 2011, the rate of current deficit to the GDP is estimated to have retreated to 7.3% at the end of 2012.

The Central Bank of the Republic of Turkey (CBRT) continues with its monetary policy implementations within the frame of inflation targeting

It is the building block of our corporate stance to stand by our policyholders with innovative and comprehensive products and services that cater to different needs, to make sure that they will never lose.

regime, in keeping with its primary purpose of ensuring and maintaining price stability. The downward trend in the annual inflation that became marked from the last quarter of the year enabled some loosening in the monetary policy, paving the way for upgrades by rating agencies, resulting in a historic low level of under 6% for interest rates.

While the rise in CPI for 2012, at 6.16%, was at its lowest of the past 29 years, the increase in PPI stood at 2.45%.

The 4% real growth target set for 2013 in the Medium Term Program seems exceedable owing to the lagging effects of the loose monetary policy introduced in the second half of 2012 and the continued strong capital flows.

### Restricted growth also in the insurance sector

As a result of the stagnated demand for non-life insurance in parallel with the contraction in the world economy, premium production in the global non-life insurance sector is estimated to have grown 3% in 2012, including the price increases.

On the other hand, insurance companies now enjoy stronger capitalizations contributed by the relatively average level of catastrophe losses in 2012 as compared to the previous years.

Looking at Turkey, we see a premium expansion of about 10% in real terms in the non-life branch, despite the tough economic conditions. The profitability issue, however, lingers on.

Anadolu Sigorta displayed stable growth aligned with the overall sector in 2012, and surpassed TL 2 billion in premium production, thus preserving its strong position.

### We are here to win with Turkey.

As the effects of the continued global crisis and unfavorable macroeconomic conditions in 2012 perceptibly revealed the various aspects of losing, they also manifested the aptness of our slogan "Never Lose" and how it duly expresses our mission.

Anadolu Sigorta is here to offer any insurance guarantee at optimum conditions that the people of this country deserve to achieve a better life. It is the building block of our corporate stance to stand by our policyholders with innovative and comprehensive products and services that cater to different needs, to make sure that they will never lose.

The project "Bir Usta Bin Usta" (One Master, Thousand Masters), an initiative that transported the "Never Lose" concept to the social responsibility arena in an effort to help perpetuate our cultural values and crafts, made us proud once again in 2012 with a successful performance.

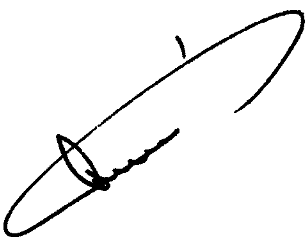
### Handing off the baton in the relay race

The command changed hands at Anadolu Sigorta in 2012. Our distinguished colleagues that we have been long working with moved to different positions, in which we are sure to be witnessing their further achievements. Mr. Musa Ülken succeeded Mr. Mustafa Su as Chief Executive Officer.

### Looking at the future...

Anadolu Sigorta is a company with a history that dates back to the foundation of the Turkish Republic. We have built our vision upon making Anadolu Sigorta the insurance brand preferred by everyone who needs insurance in Turkey. Our aim at this point is to further improve our products and services, and offer the best to our policyholders. I would like to thank our expert employees who are committed to advancing Anadolu Sigorta further and to all our policyholders who stand by us with their trust and support.

Sincerely,



**Caner Çimenbiçer**

Chairman of the Board of Directors & Managing Director

## MESSAGE FROM THE CEO

**Looking back on a tough year...**

As we step into 2013, we see that the legacy of the previous year included challenging global macroeconomic conditions, economic contraction on a global scale, and its relatively mitigated reflection upon Turkey.

The worldwide stagnation bore a negative impact upon the growth momentum of the Turkish insurance sector, as well. While non-life insurance industry registered a nominal growth rate of 18.2% in Turkey in 2012, total premium production went over TL 17 billion. The real growth in the non-life branches was 11.4% in 2012. The life branch, however, grew by nearly 1% and failed to capture any real growth. The insurance sector registered a total premium production of TL 19,826 million, while capturing a growth rate of 15.50% and real growth rate of 8.80%.

The key driver behind the sector's growth in 2012 was the motor vehicles insurance. The revised tariffs of the companies contributed to a 19.7% increase in production in this branch, which had been sustaining losses continuously in the past several years. Production in motor vehicles liability branch went up 32.4%, followed by fire and natural disasters with 14.5% and illness/health branch with 11.9%.

While there were two companies with a premium production of above TL 2 billion in 2012, there were 3 companies that went over TL 1 billion in premium production. Anadolu Sigorta ranked second in the sector in terms of premium production.

The Company's direct premium production was up 16% to TL 2,235 million in 2012. Following suit of previous years, motor vehicles branch got the biggest share of the total portfolio at 33.3%. This is followed, in order, by motor vehicles liability, fire and natural disasters, and health branches.

While we extend support to our agency channel that is responsible for a large part of Anadolu Sigorta's portfolio, we will be increasing the bank channel's share in production through investments in bancassurance.

Failure to capture the desired technical profitability remained as the hottest agenda item for the insurance sector also in 2012.

The revenues in the sector are eroded due to the business models lacking a focus on technical profit, and high loss/premium ratios. This process is supported also by the price-based competition coupled with the sector's failure to secure sufficient prevalence. Insurance awareness that is yet to develop adequately in Turkey hinders the sector from gaining a structure and depth aligned with the scale economy. This is also why the number of policies increases at a slower pace than desired.

Despite the rise secured in premium production, there were significant declines in consolidated technical profits and consolidated profit. It arises as a necessity to diverge the competitive focus away from price and towards service level and service quality, and product versatility and reliability element in order to restore the profitability that the sector recently lost. The required cycle for profitability will be complemented by accurate analyses of risks for achieving realistic levels in pricing, increased financial strength to be gained by the companies active in the sector, and the ability to make claims payments timely and fully.

**We are efficiently using technology and enhancing our productivity and competencies.**

Since 2008, we have been rolling out C2C (Closer to Customer), an initiative whereby all business processes are reviewed and revised and which essentially embodies a set of projects. I would like to touch upon the 2012 highlights of the project, through which we are intending to grow closer to our policyholders and business partners:

- SAMBA Customer Data Card screens and Campaign module was introduced across the Company. This enables targeted product sale and campaign organizations that correspond to customer categories.
- With the SAMBA Channel Management module, sales channel data entry/viewing, performance evaluation, and commission rates screens are put into use for the Company and our agencies.
- The processes and technological application designed for Customer Requests/Complaints Management were put in service.
- The Claims and Subrogation project was brought to completion, which is intended to reduce manual workload and loss costs, ensure optimization of capacity usage and effective process management, enhance service quality and customer satisfaction, and develop a customer-oriented approach. The project will enable technology-backed support to all of the Company's claims and subrogation processes, as well as complete control and reporting of file and supplier management.

We will be seeing some other outcomes of our C2C change program in 2013. Some examples are "Business Intelligence", "Bancassurance" and "Customer Relations Management", aspects in which we expect to see the completion of our investments in 2013. Our goal is to maximize our productivity and to further upgrade the quality of the services offered to our policyholders.

**Every investment in bancassurance will contribute toward propagation of insurance.**

New formations and needs in the sector bring the banking and insurance sectors together on common ground, which work to offer the best in service to their customers under competitive conditions, thus allowing the development of new projects and joint campaigns. Along this line, we anticipate the momentum in bancassurance, which we regard as an important channel that will contribute to the development of the insurance sector, to continue and further increase in the years to come. Bancassurance will be a key constituent of the insurance sector in the future.

The share bancassurance got of Anadolu Sigorta's premium production grew close to 10% at the end of 2012. Our aim in the short term is to create a bancassurance organization that will be supported by new processes and models directed towards this channel and will be managed under a single roof, and to increase the share of bancassurance.

As the intensity of bancassurance activities grew across the sector, our Company has been conducting projects to increase the share of Türkiye İş Bankası A.Ş.'s (İşbank) portfolio, in particular. As at year-end 2012, the rate of increase İşbank channel attained in our portfolio reached 22%.

There are several initiatives recently introduced and currently ongoing, which seek to expand the premium produced via İşbank. A succession of processes and structuring attempts are underway, which will allow more efficient and faster "sales" through the bank channel aligned with the diversified needs in the conjuncture while keeping a close eye on customer segments, in particular.

In this framework, products commonly sold via branches were identified and necessary improvements were made to the proposal and policy issuing processes. In 2012, İşbank branch employees used a platform incorporated in the bank screens that eliminated the need to use different interfaces, and started issuing personal accident, motor third party liability, TCIP, breath health, motor own damage, and home package policies at a volume growing by the month.

This will enable our "maximum insurance specialists" who work on insurance products in branches to focus on commercial customers, and our qualified sales team to closely support the branches and bank customers also in the post-policy sale stage, in keeping with our enhanced quality of service in enterprise insurance.

Moreover, screen designs have been introduced, which will facilitate issuing policies and getting proposals from alternative delivery channels such as ATMs, online branch, etc.

### Our social responsibility project "Bir Usta Bin Usta" continues at full speed.

As our project received continued acclamation in its third year, it made a distinguished name for itself crowned with the national and international awards received in 2012.

The awards garnered in 2012 by the project "Bir Usta Bin Usta" (One Master, Thousand Masters) included a silver award in the Corporate Social Responsibility Program of the Year in Europe in the International Stevie Awards; the Gold Sabre Award granted by The Holmes Report, Demirkent Award distributed by Dünya newspaper, and the Corporate Social Responsibility Project of the Year at the İZ Awards by the Turkish Association of Advertising Agencies. In 2012, the project continued to give life to traditional crafts on the back of various courses that included mother-of-pearl inlaying (Ankara), rug and saddlebag weaving (Kars), glass blowing (Muğla), pottery (Nevşehir) and handprinted scarf making (Tokat).

### The sector's course – today and tomorrow...

The key elements that will influence the course of the insurance sector in the period coming will remain unchanged from those of today: insurance awareness, penetration, technical profit, delivery channels, and public support. Insurance education, publicity and awareness raising campaigns, and the required arrangements in legislation are of importance with regard to increasing insurance awareness and penetration.

On the other hand, it is our target to attain growth in the sector on the axis of technical profitability. It is witnessed that the sector is seeking to find a balance between the premiums earned and claims paid in the high-volume motor third party liability and motor own damage branches. To achieve the technical profitability target, it is necessary to increase insurance ownership ratio and average premium production per person through alternative products, thus helping the sector free itself from the motor own damage and third party liability cycle, and to market products with high technical profitability to the consumers. A positive impact will result also from the control and accurate management of costs, and in turn of claims, as well as of commissions and other expenses.

The growth trend in the non-life branches will be ongoing also in 2013 in the insurance sector. The growth will occur in all branches in different ratios as a result of individual enrichment and increased insurance awareness. Corporate companies are expected to show an increased tendency towards covers including loss of profit, product liability, and the like, in an effort to secure protection against various risks. We anticipate the largest expansion in the sector in the next decade to take place mostly in individual policies in fire, liability and motor own damage, and motor third party liability branches. The growth in the insurance sector is expected to receive significant contribution from insurance policies sold in conjunction with bank-issued loans.

### ... and the goals of Anadolu Sigorta...

Our Company captured the targeted rise in premium production in 2012, however failing to replicate the same performance in technical profitability due to the loss/premium ratios in the insurance branches engaged. In 2013, Anadolu Sigorta will continue to place the same emphasis on motor own damage, health and fire insurance branches. In addition, we are targeting to grow in individual professional liability insurance, in particular, as well as in package products for SMEs, home packages, marine and liability insurance branches.

While we extend support to our agency channel that is responsible for a large part of Anadolu Sigorta's portfolio, we will be increasing the bank channel's share in production through investments in bancassurance. We will improve our alternative delivery channels and keep working to further expand our product range.

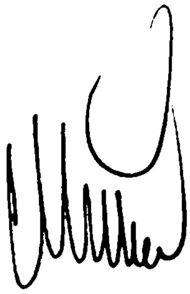
Furthermore, key focal points for our Company include raising insurance awareness, conducting risk management activities, pursuing rational pricing policies, upgrading the quality of products and services rendered to policyholders, and securing increased penetration.

### I thank my colleagues and policyholders...

I have taken over the position of CEO at Anadolu Sigorta in 2012.

I would like to sincerely thank my colleagues who hold senior executive positions in the Company, with each of whom I have collaborated for many years, and to the entire Anadolu Sigorta family for their cooperation and support ever since I have taken office.

I extend my best wishes to our entire team who have duly fulfilled their share of the duty in building a safer present and future for everyone and helped achieve the 2012 performance, and to our policyholders who place their trust in us.

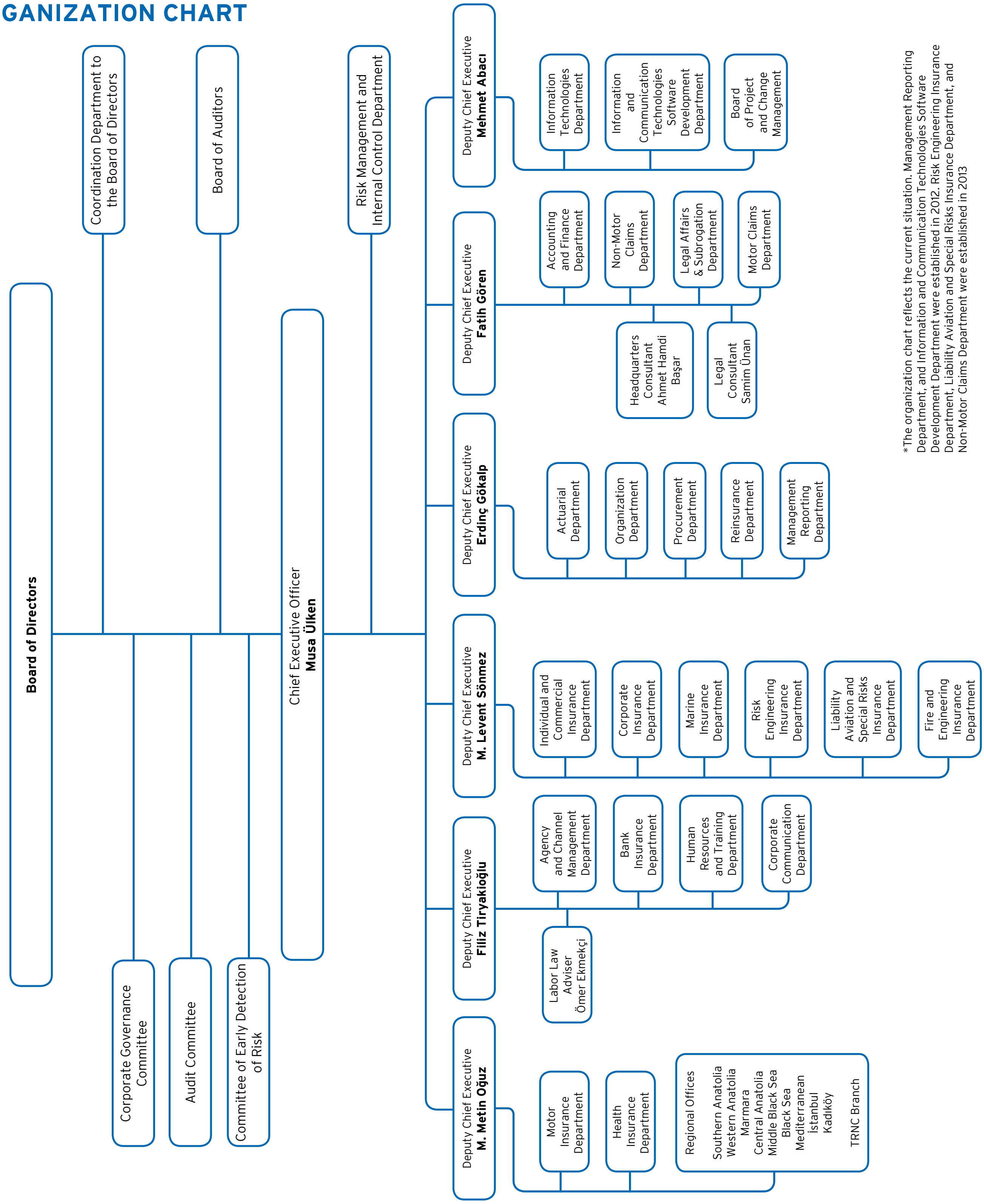


**Musa Ülken**

CEO

# THE COMPANY'S ORGANIZATION CHART, CAPITAL AND SHAREHOLDER STRUCTURE

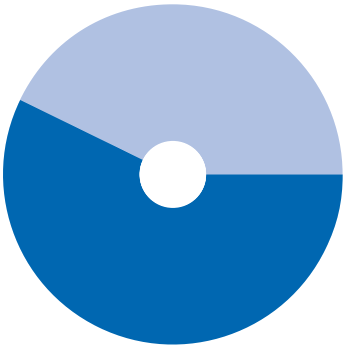
## ORGANIZATION CHART




*The organization chart reflects the current situation. Management Reporting Department, and Information and Communication Technologies Software Development Department were established in 2012. Risk Engineering Insurance Department, Liability Aviation and Special Risks Insurance Department, and Non-Motor Claims Department were established in 2013

## CAPITAL AND SHAREHOLDER STRUCTURE

### Shareholder Structure




| Shareholder Structure | (%) |
|---|---|
| Milli Reasürans T.A.Ş. | 57.3 |
| Others | 42.7 |

### Capital Increases and Their Sources

There were no capital increases during 2012

### Changes in the Articles of Association during 2012

Based on the T.R. Prime Ministry Capital Markets Board permission dated 19.03.2012 and numbered B.02.6.SPK.0.13.00-110.03.02.795 and T.R. Ministry of Customs and Trade Directorate General of Domestic Trade permission dated 23.03.2012 and numbered B.21.0. İTG.0.03.00.01/431.02-2-256108-2019; it has been unanimously approved and enforced at the Annual General Assembly Meeting held on 29 March 2012 that "Article 44 – Invitation and Agenda" of the Company's articles of association be amended and that "Article 68 – Compliance with Corporate Management Principles" be supplemented to the articles of association.

## DISCLOSURES ON PREFERRED SHARES

Currently, out of the Company's issued capital of TL 500,000,000, TL 1.5 consists of 150 Class A shares each with a nominal value of TL 0.01, and TL 499,999,998.5 consists of 49,999,999,850 Class B shares each with a nominal value of TL 0.01. Class A shares entitle their holders to 10 votes and Class B shares to 1 vote.

Class A shares have no privileges other than the voting right privilege mentioned above. In capital increases, new Class A shares are not created.

There are no privileges for distribution of profit.

# GOVERNING BODY, EXECUTIVES AND THE NUMBER OF EMPLOYEES

## BOARD OF DIRECTORS AND AUDITORS


1


2


3


4


5


6


7


8


9


10


11


12

**Ayşen Ayan**
**Board of Directors Reporter**

### Information on Board of Directors Meetings

During 2012, our Board met 12 times and held its 1171st meeting in December.

Four of these twelve meetings were held with full participation of the members, whereas one member was absent in five meetings, and one auditor in three meetings.

Topics discussed in the meetings generally consist of the reports by the Board of Directors Committees and by the Board of Inspectors, proposals laid down for approval by the Company's Board of Directors, executive reports and informative memos, status reports on the restructuring project currently in progress at our Company, and working study reports that evaluate the innovations and results of bancassurance activities.

The meeting documents are distributed to the members approximately four days in advance of the meeting date.

## Board of Directors

**1- Caner Çimenbiçer**
**Managing Director & Chairman**
Born in Bursa in 1952, Caner Çimenbiçer graduated from the Business Administration department of the Faculty of Administrative Sciences at Middle East Technical University in 1973. He started his professional career at Koç-Burroughs the same year. He joined İşbank in 1974 as an assistant inspector trainee on the Board of Inspectors. After holding various positions in the Bank, he was appointed as Senior Executive Vice President in 1998, and elected as Board of Directors member from 2005 to 2008 and the Chairman of the Board from 2008 to 2011. Appointed as the Chairman and Managing Director of Anadolu Sigorta on 01 April 2011, Caner Çimenbiçer served in various companies in the past ten years. Mr. Çimenbiçer was the Chairman of the Board at İşbank GmbH (1999-2002), İş Doğan Petrol Yatırımları A.Ş. (2000-2002), İzmir Demir Çelik Sanayi A.Ş. (1999-2005), Petrol Ofisi A.Ş. (2000-2005) and Petrol Ofisi Alternatif Yakıtlar Toptan Satış A.Ş. (2005), and a Board member of İ.M.K.B. A.Ş. (1999-2003), İş-Tim Telekomünikasyon Hizmetleri A.Ş. (2003-2004). He was Deputy Chairman at Erk Petrol Yatırımları A.Ş. (2003-2005), and Petrol Ofisi Gaz İletim A.Ş. (2005), Board member at Avea İletişim Hizmetleri A.Ş. (2003-2005) and Chairman of the Board at Milli Reasürans T.A.Ş. (2008-2009).

**2- Ahmet Doğan Arıkan**
**Deputy Chairman**
Born in 1949 in Ankara. Ahmet Doğan Arıkan graduated from Middle East Technical University in 1971. He began his career as a systems analyst at the General Directorate for the Turkish State Meteorological Service and he joined İşbank in 1973. In 1974-1975 Ahmet Doğan Arıkan also did his military service as a systems analyst and programming officer. Returning to İşbank upon completion of his military service, Ahmet Doğan Arıkan continued to serve in various capacities both in Turkey and abroad for about ten years, becoming General Manager of an İşbank-owned foreign trading company in 1987. This was followed by General Manager positions at two other bank-owned companies: İzmir Demir Çelik Sanayi A.Ş. in 1991 and Türkiye Şişe ve Cam Fabrikaları A.Ş. in 2000. Ahmet Doğan Arıkan retired from the latter position on 16 September 2009. In the course of his career, Ahmet Doğan Arıkan has served as a Member or Chairman of the Boards of Directors of firms in the textiles, automotives, maritime shipping, lodging, tourism, manufacturing, and banking industries.

**3- Musa Ülken**
**General Manager and Director**
Born on 20 August 1953 in Tarsus, Musa Ülken graduated from the İstanbul Academy of Economic and Commercial Sciences, Department of Economics and Public Finance. He began his career at Anadolu Sigorta Claims Department as a Clerk on 01 November 1978 and subsequently rose to the positions of Assistant Superintendent on 01 January 1984, Superintendent on 01 January 1988, Accident Department Superintendent on 07 February 1990, Chief Superintendent on 01 January 1991, Assistant Manager on 01 August 1992, Manager on 01 May 1993, Marmara Regional Manager on 06 June 1997 and Kadıköy Regional Manager on 01 June 2002. Having served in the last position until 31 July 2004, Musa Ülken became a Deputy Chief Executive Officer on 01 August 2004, I. Deputy Chief Executive Officer on 01 February 2008 and General Manager on May 2012.

**4- Fahri Kayhan Söyler**
**Director**
Born in 1954 in Kadirli, Fahri Kayhan Söyler graduated from Marmara University, Faculty of Economics and Administrative Sciences, Department of Economics. He started his career as a Clerk at Galata Branch in 1976, where he subsequently worked as a Service Officer and II. Manager. He functioned as Assistant Manager of Beşiktaş Branch in 1990, and as Branch Manager of Yenibosna Branch in 1991, Dudullu Sanayi Branch in 1992, Cağaloğlu Branch in 1996, Rıhtım Kadıköy Branch in 1998, and Yenicami Branch in 2002. He served as a Deputy CEO from 2003 until 2010. Having voluntarily retired on 31 January 2010, Söyler also held memberships on the Board of Auditors at Anadolu Sigorta, Executive Board at Hizmet İşleri Ltd. Şti., Board of Directors at İş Finansal Kiralama A.Ş. and was the Chairman of İş Girişim Sermayesi A.Ş. during his career.

**5- Hakan Aran**
**Director**
Born in 1968 in Antakya, Hakan Aran graduated from the Middle East Technical University, Department of Computer Engineering in 1990. He started his career at İşbank as a Software Specialist Trainee the same year, where he was appointed as an Assistant Manager in 1999, and promoted to Group Manager position in 2002. He became Software Development Manager in 2005 and was finally appointed as Deputy CEO on 17 July 2008. Having completed his MBA on scholarship from Başkent University, Institute of Social Sciences in 2002, Hakan Aran has a master's dissertation titled "Process Management and a Model on Information Technologies Supporting Customer-Centric Approach to Banking".

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

**7- R. Semih Nabioğlu**
**Director**
Born in Isparta in 1967. Semih Nabioğlu has graduated from the Business Administration department of Gazi Üniversitesi. He has got a master degree in Accounting and Finance field at the same university. In 1990, he started his career as Assistant Specialist at İşbank, where he still works as Unit Manager at the Equity Participations Department. Semih Nabioğlu has served as Board Director and Board Member at various İşbank's affiliates during his career. Semih Nabioğlu is currently Board Member at Anadolu Anonim Türk Sigorta Şirketi, Anadolu Hayat Emeklilik, Milli Reasürans, Nemtaş Nemrut Liman İşletmeleri and Gemport Gemlik Liman ve Depolama İşletmeleri.

**8- Prof. Dr. Turkay Berksoy**
**Director**
Born in Elazığ in 1951, Prof. Turkay Berksoy graduated from İstanbul Academy of Economics and Commercial Sciences. He started his academic career as a teaching assistant in the School of Political Sciences, İstanbul Academy of Economic and Commercial Sciences in 1975. He received his master's degree in economics from Boğaziçi University in 1977, and his doctorate degree in finance from Marmara University, the Faculty of Economics and Administrative Sciences in 1982. He was a visiting lecturer at the University of East Anglia School of Development Studies in the U.K. in 1985 and an assistant professor in the Finance Department of the Faculty of Economics and Administrative Sciences at Marmara University in 1986. Turkay Berksoy became an associate professor in 1988 and a full professor in 1993. At Marmara University, he served as the assistant chairman of the Finance Department, Faculty of Economics and Administrative Sciences from 1985 to 1991, vice director and acting director of the Institute of Social Sciences from 1990 to 1992, the vice dean and acting dean of the Faculty of Economics and Administrative Sciences from 1993 to 1999, administrative board member from 1994 to 2000, and faculty committee member from1998 to 2000 in the same faculty. A lecturer at the same faculty since 1975, Prof. Berksoy has been serving as the chairman of the board of directors at the Center of Finance Research and Application, Marmara University since 1998, and as the chairman of the Finance Department at the Faculty of Economics and Administrative Sciences in the same university since 2007. In addition to his posts at the university, he was adviser to Şekerbank (1991-1993), Eximbank (1993-1994) and Emlakbank (1994-1996), a board member for Güneş Hayat Sigorta A.Ş. (1999-2001), Petkim A.Ş. (2002-2004), Ataköy Otelcilik A.Ş. (2004-2005), and Türkiye Denizcilik İşletmeleri A.Ş. (2006-2010), and an auditor at İşbank (2005-2011). Holding the professional title of certified public accountant, Prof. Berksoy was a member of the Union of Chambers of Commodity Exchanges of Turkey (TOBB) Specialization Commission, and Ministry of Finance Tax Council member from 2005 to 2011.

**9- Mehmet Rasgelener**
**Director**
Born in 1950 in Ankara, Mehmet Rasgelener graduated from Ankara Atatürk High School and got his degree from the Department of Economics and Statistics at Middle East Technical University in 1976. He received his master's degree in port and shipping administration from UWIST (University of Wales Institute of Science and Technology) in 1982. Having participated in many national and international certification courses and programs in banking, project feasibility and management, port and shipping administration, he started his professional career at İşbank in 1978 as an assistant inspector. He worked as the World Bank Project Coordinator at the Ministry of Transport (UKI) from 1980 to 1983, and Marina Administrator at the T.C. Turizm Bankası A.Ş. He joined the Prime Ministry Undersecretariat of Treasury and Foreign Trade in 1985, where he functioned as the branch manager responsible for World Bank projects, Economic and Commercial Counselor to Tokyo Embassy, Assistant General Director, and Economic Counselor to the New York Consulate General. In October 1999, he was appointed as the General Director for State Economic Enterprises and Treasury Transfers at the Undersecretariat of Treasury. After serving in this position until April 2004, Mehmet Rasgelener retired in July 2008 while functioning as the Chief Economic Counselor to Paris Embassy. Mehmet Rasgelener was a member of the Board of Auditors at İstanbul Gübre Sanayi A.Ş. (1997), and İşbank (1997-1998), and a member of the Board of Directors of Türk Telekom A.Ş. (2000-2001), Milli Reasürans A.Ş. (2001-2003), and Aktif Group of Companies (2008-2011).

## Board of Auditors

**10- Ethem Eliaçık**
**Auditor**
Born on 01.10.1972 in Amasya Ethem Eliaçık was graduated from Marmara University, Faculty of Economics and Business Administration Faculty-International Relations Department in 1994. In the same year he started to work at İşbank's Şişli Branch as a servant. Between 1996-2004 he worked at Güneşli Branch, Retail Banking Department and Corporate Banking Department as specialist. Between 2004 – 2007 he worked at Thrace District Management Department as assistant manager. He was attended as assistant manager to Commercial Banking Sales Division in 2007. In the same year, he was raised to the Unit Manager position at the same department. Holding the title of financial analyst, he has been working as branch manager at Hadımköy Commercial Branch.

**11- Kubilay Aykol**
**Auditor**
Born 24. January 1974 in Bolu Kubilay Aykol graduated form Middle East Technical University (Faculty of Economics and Administrative sciences) department of Business Administration. He began his career in 1997 at Türkiye İş Bankası as assistant inspector at Bank's Board Member of Inspectors. He was appointed Merter branch as branch manager position in 2006. He became an assistant manager in Retail Banking Marketing Department in 2007. He promoted to group manager position in the Retail Banking Marketing, unit of Micro Individual segment in 2009. As of June 2011 Aykol is the manager of Retail Banking Marketing division.

**12- Canan Yılmaz**
**Auditor**
Born in Istanbul in 1975. Canan Yılmaz has graduated from St. Georg College and got her degree from the Faculty of Mechanical Engineering at İstanbul Technical University, in 1994 and 1998 respectively. She has completed her master degree at Business Administration department in Institute of Social Sciences of İstanbul Technical University in the year 2000. After working in air conditioning industry at various companies as engineer, she started her finance career in 2001 as an Assistant Specialist at İşbank. Canan Yılmaz currently works as Deputy Manager at the Equity Participations Department, responsible for Insurance and Logistics affiliates. Being elected as Board Director in Anadolu Sigorta as of August 2012, Canan Yılmaz is also member of the Board of Auditors in Milli Reasürans, Anadolu Hayat Emeklilik, Nemtaş Nemrut Liman İşletmeleri, Gemport Gemlik Liman ve Depolama İşletmeleri and Nemtrans Lojistik Hizmetleri ve Petrol Ürünleri Ticaret.

# EXECUTIVE COMMITTEE

1

2

3

4

5

6

7

**1- Musa Ülken**
**General Manager**
Born on 20 August 1953 in Tarsus, Musa Ülken graduated from the İstanbul Academy of Economic and Commercial Sciences, Department of Economics and Public Finance. He began his career at Anadolu Sigorta Claims Department as a Clerk on 01 November 1978 and subsequently rose to the positions of Assistant Superintendent on 01 January 1984, Superintendent on 01 January 1988, Accident Department Superintendent on 07 February 1990, Chief Superintendent on 01 January 1991, Assistant Manager on 01 August 1992, Manager on 01 May 1993, Marmara Regional Manager on 06 June 1997 and Kadıköy Regional Manager on 01 June 2002. Having served in the last position until 31 July 2004, Musa Ülken became a Deputy Chief Executive Officer on 01 August 2004, I. Deputy Chief Executive Officer on 01 February 2008 and General Manager on May 2012

**2- Mehmet Metin Oğuz**
**Regional Offices**
**TRNC Branch**
**Motor Insurance Department**
**Health Insurance Department**
Born on 04 April 1959 in Çanakkale, M. Metin Oğuz graduated from Middle East Technical University, Faculty of Arts and Sciences, Department of Physics and Mathematics, and holds a master's degree from Marmara University Institute of Banking and Insurance, Department of Insurance. M. Metin Oğuz began his career at Anadolu Sigorta as a Clerk in the Accident Department on 16 October 1985 and subsequently rose to Assistant Superintendent on 01 February 1989, Superintendent on 01 February 1992, Chief Superintendent on 01 February 1995, Assistant Manager on 01 May 1997, Manager on 01 March 1998, and Motor Insurance Manager on 01 June 2002. Having served in the last position until 31 July 2004, M. Metin Oğuz became a Deputy Chief Executive Officer on 01 August 2004.

**3- Filiz Tiryakioğlu**
**Agency and Channel Management Department**
**Bank Insurance Department**
**Human Resources and Training Department**
**Corporate Communications Department**
Born on 26 June 1967 in İstanbul, Filiz Tiryakioğlu graduated from Anadolu University, Faculty of Business Administration, Department of Business Administration. She started her career at Anadolu Sigorta as a Clerk at the Fire Department on 16 September 1985. She rose to Assistant Superintendent at the same department on 01 January 1990. She was appointed to the Claims Department on 01 February 1993 as Superintendent,then rose to Chief Superintendent on 01 May 1996, and Assistant Manager on 01 March 1998 at the same department. She became a Manager at the Training Department on 01 June 2000 and was then appointed as the Human Resources and Training Manager on 01 August 2004. She was appointed as Deputy Chief Executive Officer on 01 February 2008.

**4- M. Levent Sönmez**
**Individual and Commercial Insurance Department**
**Corporate Insurance Department**
**Marine Insurance Department**
**Risk Engineering Insurance Department**
**Liability Aviation and Special Risks Insurance Department**
**Fire and Engineering Insurance Department**
Born on 22 June 1962 in Ankara, M. Levent Sönmez graduated from İstanbul Technical University, Faculty of Maritime Studies, Department of Marine Engineering in 1985, got his master's degree in "Contemporary Management Techniques" from Marmara University & Maine University and completed the "SITC (Swiss Re) Marine Insurance" program. Having participated in various training programs in Turkey and abroad, M. Levent Sönmez also holds "Chartered Insurance Institute / London Dip. CII" degree. He started his career at Anadolu Sigorta as a Specialist at the Marine Department on 01 May 1991 and continued working with same title till 30 April 1996. He subsequently rose to Specialist position on 01 March 1994, Chief Superintendent position on 01 May 1996, Assistant Manager on 01 October 1997, and Manager on 01 May 1999. M. Levent Sönmez has become Bakırköy Regional Manager on 01 June 2002 and Kadıköy Regional Manager on 01 August 2004. He has been appointed as Deputy Chief Executive Officer on 01 February 2008.

**5- Erdinç Gökalp**
**Actuarial Department**
**Organization Department**
**Reinsurance Department**
**Purchasing Support&Premises Department**
**Management Reporting Department**
Born on 26 July 1967 in Ankara, Erdinç Gökalp graduated from Kuleli Military High School and Turkish Military Academy, Department of Business Administration. He then got his master's degree in insurance from Marmara University, Institute of Banking and Insurance. During his employment with Anadolu Sigorta, he earned the Atatürk scholarship granted by the Insurance Association of Turkey and pursued his studies abroad. Having started his career at Anadolu Sigorta as Specialist at the Marketing Department on 01 May 1991, Erdinç Gökalp was appointed to the Reinsurance Department on 23 September 1991, rose to senior specialist position and continued working till 30 April 1996 with the same title. He promoted to Chief Superintendent position on 01 May 1996 and to Assistant Manager position on 01 October 1997, he was appointed to the Marketing Department. Erdinç Gökalp was appointed to the Accident Department on 26 December 1997 with the same title. He rose to the position of Manager and was assigned to the Reinsurance Department on 01 July 2001. Erdinç Gökalp has been appointed as Deputy Chief Executive Officer on 01 February 2008.

**6- Fatih Gören**
**Deputy Chief Executive**
**Claims Department**
**Legal Affairs & Subrogation Department**
**Accounting and Finance Department**
**Motor Claims Department**
**Non-Motor Claims Department**
Born on 11 November 1969 in Ankara, Fatih Gören graduated from Ankara University, Faculty of Political Sciences, Department of International Relations. He worked as a Specialist at Retail Banking and Agricultural Loans Departments at Ziraat Bank between 1991 and 1994. Having joined Anadolu Sigorta as an Assistant Inspector on the Board of Inspectors on 01 November 1994, Fatih Gören rose to Senior Inspector on 01 November 1997 and grade 3 Inspector on 01 November 1998. He was appointed as Assistant Manager to the Accounting and Finance Department on 01 June 2000, where he was promoted to Manager position on 01 August 2004. Fatih Gören has been appointed as Deputy Chief Executive Officer on 01 February 2008.

**7- Mehmet Abacı**
**Deputy Chief Executive**
**Informations Technologies Department**
**Information and Communication Technologies Software Development Department**
**Board of Project and Change Management Department**
Born in 1967 in Ankara. Mehmet Abacı, graduated from the Department of Metallurgical and Materials Engineering, Faculty of Engineering at Middle East Technical University in 1991. Starting his professional career at İşbank IT Department, as a Software Specialist the same year, Mehmet Abacı, was appointed as Assistant Manager in 1999, and Unit Manager in 2004. He was promoted as Deputy Chief Executive Officer at SoftTech in 2008, and became Solution Development Manager and Project & Change Manager at İşbank in 2010 and in 2011 respectively. Mehmet Abacı was appointed as Deputy Chief Executive Officer of SoftTech for a second term, on 1 January 2011. As of June 2012, he took office at Anadolu Sigorta as Deputy Chief Executive Officer.

## HEADS OF UNITS UNDER THE INTERNALS SYSTEMS

**Dr. İbrahim Erdem Esenkaya**
**Chairman of the Board of Inspectors**

Born in 1969 in İstanbul. İbrahim Erdem Esenkaya graduated from İstanbul University, Faculty of Political Sciences, Department of Public Administration. He then completed a master's degree without dissertation in the graduate program for the management of financial institutions at İstanbul University, Faculty of Business Administration, Institute of Business Administration. He earned his master's degree in business management and organization, and his doctorate degree in accounting and auditing from the Institute of Social Sciences at the same university. He started his career at Anadolu Sigorta as an Assistant Inspector at the Board of Inspectors on 01 May 1995 till 31 May 2001. He was appointed to the Accounting and Finance Department on 01 June 2001 as an Assistant Manager and to Internal Audit Department on 01 January 2005 as a Manager. İbrahim Erdem Esenkaya has been appointed as the Chairman of the Board of Inspectors on 01 June 2007.

**Ömer Altun**
**Risk Management and Internal Control Manager**

Born in 1970 in Malatya. Ömer Altun graduated from Hacettepe University, Faculty of Science, Department of Statistics. He began his career at Anadolu Sigorta as a Clerk at the Accounting and Finance Department on 01 May 1997, where he subsequently rose to Specialist position on 01 February 1998 and continued working with same title till 30 November 2005 and then he rose to Assistant Manager position on 01 December 2005. On 01 February 2008, Ömer Altun has been appointed as a Manager to the Risk Management and Actuarial Department, which was renamed to Risk Management and Internal Control Department within the scope of the restructuring of internal systems organization.

## FINANCIAL AFFAIRS AND ACTUARIAL UNIT MANAGERS

**Taylan Matkap**
**Appointed Actuary/Manager**
**Actuarial Department**

Born in 1978 in Antakya, Taylan Matkap graduated from Ankara University, Department of Statistics and completed his master's degree in the Department of Actuarial Sciences and Finance at Boston University. He is currently pursuing his doctorate studies at İstanbul University, Department of Labor Economics and Industrial Relations. He started his career at Anadolu Sigorta on 01 December 2008 in appointed actuary/manager position at the Actuarial Consultancy Unit, and he has been transferred to the Actuarial Department with the same title on 28 February 2011. Taylan Matkap serves as the Secretary General of the Actuarial Society of Turkey, the Society's representative on the International Actuarial Association, and a member on the Committee on Ratemaking of the Casualty Actuarial Society.

**Murat Tetik**
**Accounting and Financial Affairs Manager**

Born in 1968 in Eskişehir, Murat Tetik graduated from İstanbul University, Business Administration Department (English) and started his career in our Company on 01 May 1997 as an Assistant Inspector on the Board of Inspectors. He was promoted to Senior Assistant Inspector on 01 May 2000, to Class III Inspector on 01 June 2001, to Class II Inspector on 01 June 2003, and to Vice Chairman of the Board of Inspectors on 01 August 2004. He was appointed as an Assistant Manager to the Accounting and Financial Affairs Department on 01 January 2005, where he rose to the position of Manager on 01 February 2008.

**Average number of employees by categories during the reporting period**

| | 31 December 2012 |
|---|---|
| Senior Level Managers | 8 |
| Managers | 150 |
| Middle Level Managers | 425 |
| Officers | 114 |
| Contracted personnel | 218 |
| Total | 915 |

# FINANCIAL RIGHTS PROVIDED TO THE MEMBERS OF THE GOVERNING BODY AND EXECUTIVES

## FINANCIAL RIGHTS

In the fiscal year ended on 31 December 2012, TL 4,477,973 in total has been provided in remunerations and similar benefits to the chairman and members of the Board of Directors, and senior executives such as the Chief Executive Officer and Deputy Chief Executive Officers. Further details are presented in the relevant section of financial notes.

## OTHER MEANS

The expenses incurred for the members of the Company's governing body and senior executives under other means such as business related entertainment and travels amounted to TL 257 thousand.

# STONE CARVING

STONE CARVING

Great majority of churches, monasteries, madrasahs, mosques, inns and houses in Mardin, home to numerous civilizations throughout history, are made of Mardin stone, with most of them still standing erect. The durability of the Mardin stone has been gifting easy access to all sorts of information for centuries. Mardin stone has symbolized various cultures in the Mardin province. Mardin stone is calcareous, has a texture of fine particles, and is easily workable after excavation. The stone can be cut using a saw, punctured using a drill, and carved with chisels. Mardin stone is characterized by its texture which is soft while processing and is hardened afterwards once in contact with the sun and water.

# THE COMPANY'S RESEARCH AND DEVELOPMENT ACTIVITIES

## RESEARCH AND DEVELOPMENT PERTAINING TO NEW SERVICES AND BUSINESS ACTIVITIES

- Staffing activities have been undertaken to accurately determine the number of employees required at Anadolu Sigorta which is exposed to increased transaction load in connection with its expanded portfolio and is scene to changing processes within the frame of constant improvement/development concept in the face of the current conditions that impose production of the highest quality work with optimum number of employees with optimum capabilities as the key achievement.
- Handling corporate reputation management, perception management, crisis communication, corporate brand equity, social responsibility projects, event and sponsorship activities, the Public Relations Department has been renamed to Corporate Communication Department which better describes its duties and areas of responsibility.
- "Anadolu Sigorta Corporate Information Portal" went live with the vision of providing a single point of contact to fulfill the employees' and agencies' need to access up-to-date information.
- No irregularities were found in the external audit conducted within the scope of ISO 9001 2008 Quality Management System, resulting in an extension of the quality certification.
- Under a restructuring initiative, Information and Communication Technologies Business Line was set up, and Software Development Department and Information Technology Architecture and Security Consultancy units were centralized under the name Information and Communication Technologies Solution Development Department (ICT SDD).
- Corporate Compliance Unit was formed under the Risk Management and Internal Control Department.
- Management Reporting Department was founded to fulfill the management reporting needs and ensure governance of decision support systems (Business Intelligence Competency Center-BICC).
- General conditions, clauses, and special conditions provided to policyholders along with their policies have been posted on the website, increasing the accessibility of such information.
- The phone number of Anadolu Service and Claims Line, accessible 24/7, rendering services for Anadolu service, claims and customer services, was changed to 0850 7 24 0850.
- Bookkeeping and collection transactions under the responsibility of İstanbul Regional Branches and bookkeeping and collection transactions of health insurance policies across Turkey were centralized under the Accounting and Finance Department.
- İşbank corporate branches, which were under the responsibility of Corporate Insurance Department (CID), was handed over to the Bancassurance Department (BD) which has the primary goal of conducting and coordinating bancassurance activities throughout İşbank's and other banks' departments/units. Accordingly, the Company began coordinating the accounts on İşbank İstanbul corporate portfolio centrally via the BD.
- Home, TCIP, Motor Own Damage and Motor Third Party Liability insurance policies renewed by İşbank Banking Operations Division are started to be mailed to the customers' postal addresses.
- Work was carried out regarding the New Turkish Commercial Code that went into force as of 01 July 2012 and agencies were informed on various aspects thereof.
- A desk exercise was carried out in conjunction with the Supreme Board and related departments, within the framework of the Business Continuity Management System that ensures planning how processes will be managed in the event of a natural disaster or calamity, thereby reviewing preparedness for such a disaster once again.

The design and development of the Claims and Subrogation Project have been finalized, and the new Rh+ claims application went live during 2012.

- Sales, Service Distribution and Marketing Project was closed and its hand-over to the Company units was completed.
- SAMBA Customer Data Card screens (data viewing, customer segment, customer score, document management and sales opportunities) and the Campaign module (the screens covering the functions of creating campaigns, preparing customer lists and viewing them on users' workspaces and producing campaign responses) have been introduced across the entire Company.
- SAMBA Channel Management module put sales channels data entry/viewing, performance evaluation, and commission ratio screens in use for the Company and agencies.
- The processes and technology application designed for Customer Request/Complaint Handling went live.
- Claims and Subrogation Project design and development were brought to completion, upon which the new claims application Rh+ (the Turkish acronym for subrogation and claims positive) was put into use.
- Upon introduction of Rh+, professional agencies, contracted repair shops and insurance surveyors have become active users of the claims application; physical file reviews were discontinued and files are now finalized electronically, independent from the location. Since system users are able to upload the documents directly to the system, loss of time resulting from their delivery was prevented and the necessary infrastructure was set up for measuring employee performance.
- Upon the introduction of Rh+, reorganization was taken on, which resulted in centralized management of claims units.
- The Identity and Access Management Project was completed as a result of the hard work of the project team made up of İşbank and Company resources, and was handed over to the Company units. Under this initiative:
- Company employees can now access AS400, Host on Demand, SWEP, Sinerji, Outlook, VPN, ClearQuest, HP Service Management and Humanist applications through single sign-on.
- Integration with the new systems under the C2C (SAMBA, CCS etc.) and their roll-out across the delivery channels were brought to completion.
- Within the frame of İşbank Insurance Screen Project co-conducted with İşbank, İşbank ATMs and Internet Banking can be used to issue personal accident and motor third party liability policies, collect applicable charges therefor, and list/view Anadolu Sigorta insurance policies. The second phase of the Project enabled use of the same channels for issuing motor own damage, TCIP, and Breath Health products. Last but not least, the Home product was made available on the Bank's screens in the last quarter of 2012.
- Design, operation, review and improvement of the IT governance model and processes were completed, which were necessary for ensuring alignment of Anadolu Sigorta information systems processes and functions with CobIT, and 32 predefined processes have been approved.
- Web-based services provided by Anadolu Sigorta enabled use of proposal, policy issuing and collection transactions on the AcerPro platform by Albaraka Türk, Aktif Bank and certain plaza agencies.

# COMPANY ACTIVITIES AND MAJOR DEVELOPMENTS IN ACTIVITIES

## 2012-2013 PRIMARY GOALS, POLICIES AND ACTIVITIES

Anadolu Sigorta aims at profitable growth on the motto of correct pricing for the correct customer in view of customer attitude and potential. The process is intended to offer product targets determined on the basis of segments to the correct customer groups at optimum prices, while rendering sales channels manageable.

The Company targets to achieve above-average growth in health, home and SME products in the years coming.

During 2012, Anadolu Sigorta set up numerous new agencies. Based on the new insurance law enacted in Turkey, those agencies that failed to capture sufficient levels in premium production and morality from amongst the new additions to the Company's sales network were started to be closed down during 2012. Although above par agency dissolutions are expected to continue for a little longer, the overall policy will be setting up new agencies that are manageable and beneficial for the Company every year, while those that underperform in terms of morality or contribution to Company goals will be dissolved.

Efforts will be ongoing to identify and win agencies that are compatible with the code of conduct of Anadolu Sigorta, conform to the new Insurance Agencies Regulation, posses a large premium portfolio, and are profitable in cities with a need for new agencies and offering insurance potential based on regional analyses to be performed.

The key production strategy of Anadolu Sigorta is to secure a well-balanced portfolio structure and increase cross-sales ratio. It is critical to cross-sell profitable products with a special emphasis on fire and individual health policies to policyholders who have motor own damage and/or motor third party liability policies.

Below is a summary of the activities carried out during 2012 with the aim of taking the already high level of Anadolu Sigorta brand awareness, satisfaction, and recommendability among target audiences and delivery channels to even greater levels.

In an effort to ensure higher efficiency in the management of the Company portfolio and marketing/sales strategies against the competition, a survey study was administered to determine brand awareness levels, image criteria, customer satisfaction regarding the insurance types and products in use, and the tendency to recommend and continue working with the Company. The study measured customer satisfaction levels in home, office, motor third party liability, motor own damage, and health products, as well as in service processes.

Market developments were tracked on a monthly basis for individual and commercial products, while research was conducted in pricing, commission and coverage practices.

Various campaigns were organized that offered advantageous prices to the customers and additional commission opportunities to sales channels with a view to increasing efficiency in production.

Integration on the SWEP customer database was secured for customers who are approved on the Insurance Fraud Database (Turkish acronym: SİSBİS), and customer black list application went live.

A structure was created whereby the customers' technical result for the entire portfolio held for the Company and relevant segment will automatically and directly impact the tariff premium. This initiative allowed offering advantageous prices to profitable customers.

The Company also identified improvement, change and development needs in line with the Company's strategies, and managed the processes of assessing, prioritizing, conducting the business analyses of these needs, as well as realizing the project and maintenance requests triggered by them.

Management Reporting Department was set up with the target of centralized management of reporting activities carried out through the Company's different channels.

Anadolu Sigorta aims at profitable growth on the motto of correct pricing for the correct customer in view of customer attitude and potential.

Under the C2C Transformation Program, Claims and Subrogation Project went live which was initiated to redesign all of the Company's claims and subrogation processes and its technological infrastructure. The new practice is intended to:

- Create differentiation in claims service,
- Ensure customer-centric approach to service,
- Enhance customer satisfaction,
- Increase system controls and simplify claims and subrogation operations,
- Reduce manual workload,
- Guarantee optimum capacity utilization,
- Promote expertise in claims and subrogation processes,
- Assure effective process management,
- Decrease costs of claims,
- Improve employee performance.

The Company portal went live as a result of the efforts invested in this project.

The nationwide distribution of the number of agencies of other leading insurers by provinces/districts was followed up on a quarterly basis; as a result, the Company placed emphasis on setting up agencies in provinces where there was a need, in coordination with regional branches. Efforts were also spent to win eligible agencies collaborating with other insurers for the Company's agency network. In keeping with these activities, importance was given to expanding the agency network and to increasing the overall market share, with a special focus on provinces that showed a need. The existing agency network was evaluated according to various criteria including technical profitability and distribution of production and optimum agency criteria were determined. The distribution of Anadolu Sigorta's sales channels that numbered 4,263 as at year-end 2012 is presented below.

| Agents | İşbank | Brokers | Other Banks |
|---|---|---|---|
| 2,726 | 1,245 | 78 | 214 |

These agents operate under the regional branches that are located in Adana, İzmir, Bursa, Ankara, Samsun, Trabzon, Antalya, İstanbul and Turkish Republic of Northern Cyprus. The Company has 915 employees on its payroll, including those at regional branches.

## INFORMATION ON THE COMPANY'S INVESTMENTS

The Company's outlays in 2012 amounted to TL 9.2 million for the Company's technology infrastructure projects that were conducted in line with customer-centric efforts. These projects are detailed under the heading "2012-2013 Primary Goals, Policies and Activities".

# INTERNAL CONTROL SYSTEM AND INTERNAL AUDIT ACTIVITIES

## AN ASSESSMENT OF 2012 BY THE BOARD OF INSPECTORS

Pursuant to the Regulation on the Internal Systems of Insurance and Reinsurance and Pension Companies, the internal audit activity at our Company is carried out by the Board of Inspectors reporting to our Company's Board of Directors. The Board of Directors reviewed and acquainted itself with the 2012 Activity Report of the Board of Inspectors.

In 2012, 23 headquarters units, 9 regional branches and 1 branch adding up to 33 units in total were audited and their results were reported.

Initiated in order to monitor the extent at which the audited units fulfill the requirements of the reports resulting from the audits conducted, "follow-up audits" continued to be carried out in 2012. A total of 26 follow-up audits were conducted during 2012, 13 of which resulted from 2011 audits.

Auditing of agencies was carried on pursuant to the Regulation on the Internal Systems of Insurance and Reinsurance and Pension Companies during 2012, and 537 agencies were audited, and the results were reported.

On the other hand, based on Articles 16/1 and 17/2 of the Regulation on the Internal Systems of Insurance and Reinsurance and Pension Companies, audits were conducted at all of the agencies that remain after eliminating those that were dissolved during the reporting period from the 1,461 agencies that were listed in the audit programs approved by the Board of Directors and planned to be audited in the 2010-2012 period.

In 2012, 24 studies were completed: 15 investigations, 4 examinations and 5 other studies either for which it was concluded that it was not necessary to initiate an investigation or examination based on the preliminary study, upon which a summary report was prepared, or which did not fall under either investigation or examination scope.

As of year-end 2012, the Board of Inspectors was staffed by 22 board members consisting of inspectors, senior assistant inspectors, and assistant inspectors. With the aim to support professional development of the Board members and to expand their professional knowledge, their participation in various seminars, meetings and training programs in Turkey and abroad have been facilitated. In this frame, efforts will be ongoing in 2013 so that the members of the Board of Inspectors obtain nationally and internationally recognized professional certificates.

Developments are carefully monitored to ensure that the audits conducted and the reports subsequently issued are in line with "International Standards for Internal Audit", are risk-based, and contribute added value to our Company, and necessary revisions and changes are made accordingly.

The work for reviewing existing control points and methods in place at the audited Departments for the purpose of "control point identification", which was initiated in the last quarter of 2011, was completed during 2012. The effort is aimed at enhancing the level of standard and quality of audits conducted. Accordingly, the "Board of Inspectors Guidelines" will be revised as necessitated by these developments. In addition, "control points" are planned to be updated and further improved in the following years.

In line with the experiences derived from agency audits, agencies were continued to be assessed through scoring based on the financial data for the past three years, within the frame of efforts to further expand and strengthen the central auditing of agencies and to create early warning systems that correctly identify and reveal the risk elements in advance.

The Board of Inspectors will keep carrying out the activities within the context of the internal audit program prepared, as well as other activities outside of this scope, based on the fundamental approach for maximizing the benefits expected from internal auditing.

## INTERNAL CONTROL SYSTEM AND AN ASSESSMENT BY THE GOVERNING BODY

Pursuant to the provisions of the "Regulation on the Internal Systems of Insurance, Reinsurance and Pension Companies" enforced upon its publication in the Official Gazette issue 26913 dated 21 June 2008, the Risk Management and Internal Control Department was set up in a structure so as to be conducted and administered directly by the CEO, and vested in the powers and responsibilities that will allow the Department to assess the risk exposure and internal control environment in an independent/impartial and effective fashion. The Board Director responsible for Internal Systems is also responsible toward the Board of Directors for the formation of the Department and ensuring, monitoring and coordinating its operability, adequacy and effectiveness.

The duties, powers and responsibilities of the individuals charged with the operation and activities of the Internal Control system, and for conducting the activities are defined in the relevant Operating Guidelines released. The internal control system is set up as a separate mechanism independent from the internal audit system, based on applicable legislation and numerous references available in national and international literature.

Internal control activities are coordinated by employees that possess a title allowing independent conduct of the duty and designated as internal control officers from amongst department employees representing production, claims, accounting, legal, reinsurance and information business processes, as well as from amongst Risk Management and Internal Control Department employees.

Centralized internal control activities do not eliminate or modify, in part or in whole, the relevant operational and supervisory responsibilities of the employees who are in charge of conducting and/or managing these activities. The Board of Auditors separately oversees the effectiveness and adequacy of the internal control system.

The goal is to establish an effective internal control system that is aligned with the nature, complexity and risk structure of the Company's operations; to duly and efficiently manage, mitigate and control the risks involved in the Company's operations; and employ a risk-focused approach to the conduct and management of review, control, monitoring, assessment and reporting activities concerning the activities of the Company's units. In this frame, all of the Company's key processes were schematized, and risk-control matrixes detailing the control points were prepared, thus completing the system documentation.

A Contingency Action and Funding Plan has been designed, which specifies the actions to be taken in the event of a liquidity crisis sustained by the Company due to negative market movements beyond its control, unexpected macroeconomic events, catastrophic or big-ticket claims payments and other reasons.

With the aim to prevent the Company's exposure to various perils of differing scales (machinery breakdown, human errors, theft, fire, explosion, state of war, sabotage, natural disasters, terrorist acts, power outages, etc.) and the losses resulting therefrom, the Business Continuity Management System has been set up to recover as quickly as possible from the interruption caused by such perils and to enable resumption of key activities. Within the scope of the Business Continuity Management System, Headquarters Emergency Response Plan, IT Continuity Plan, Business Continuity Management System Guidelines, Business Continuity Plan and Incident Management Plan were drawn up and published on the Electronic Document Management System. The operability of the said plans is tested at certain intervals.

It was targeted to secure alignment with CobIT (Control Objectives for Information and related Technology) in the execution of information systems processes and functions, and the relevant project launched was

finalized as at year-end 2012. The following headings were addressed under the CobIT Alignment Project for Information Technology Governance and Information Technology Processes:

- Devising the Information Technology (IT) Governance Model
- Creating the Governance Processes
- Formulating the IT Service Development Processes
- Developing the IT Service Delivery and Operation Processes
- Creating the IT Support Processes
- IT Audit Management.

Accordingly, the Information Systems Management Committee was set up, which will report directly to the Executive Board and will be responsible for IT strategy and steering activities. The Information Systems Management Committee was established with the purpose of managing information systems in alignment with the Company's strategic goals, establishing the policies, procedures and processes for ensuring information security, and efficiently managing the risks arising from the use of information systems. Basically the Committee will define, asses and report on the risks arising from the use of information systems; create the guidelines for the management of these risks, establish and monitor relevant controls.

It has been considered that the internal control policies and procedures introduced and the internal control activities carried out are aligned with the Company's nature, the complexity of its operations and risk structure, and possesses the minimum elements of an efficient internal control system.

# INFORMATION ON ASSOCIATES

The de facto scope of Anadolu Hayat Emeklilik A.Ş. covers engaging in individual or group private pension activities; setting up pension funds in this framework; creating fund bylaws for the funds to be set up; executing pension contracts, annuity contracts, portfolio management contracts, custody agreements with the custodian for safekeeping of fund assets; and offering individual or group life or whole life insurance policies and accident policies in connection therewith, as well as all sorts of life policies, and carrying out reinsurance operations in relation thereto.

The Company has 20% stakeholding in Anadolu Hayat Emeklilik A.Ş.

| | 31 December 2012 | |
|---|---|---|
| | Book Value | Shareholding |
| Anadolu Hayat Emeklilik A.Ş. | 252,000,000 | 20.0% |

## REPURCHASED OWN SHARES BY THE COMPANY

None.

## DISCLOSURES CONCERNING SPECIAL AUDIT AND PUBLIC AUDIT

The Company undergoes quarterly audits conducted by the independent audit firm, Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi (KPMG), and was also subjected to a tax audit by the T.R. Ministry of Finance Tax Inspection Board, and two public audits by the T.R. Prime Ministry Undersecretariat of Treasury during 2012.

## LAWSUITS FILED AGAINST THE COMPANY AND POTENTIAL RESULTS

Lawsuits brought against the company and their possible results are presented under the heading "42 – Risks" in the notes to the financial statements.

## DISCLOSURE OF ADMINISTRATIVE OR JUDICIAL SANCTIONS

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

## ASSESSMENT OF PRIOR PERIOD TARGETS AND GENERAL ASSEMBLY DECISIONS

All decisions adopted in the Annual General Assembly meeting held on 29 March 2012 have been carried out.

Our Company acts on the principle of providing quality service and it has preserved its leading position in terms of market share in line with its targets by furthering innovation and customer-orientation concepts.

## EXPENSES INCURRED IN RELATION TO DONATIONS AND GRANTS AND SOCIAL RESPONSIBILITY PROJECTS

Our Company acts in awareness of its social responsibility and spent TL 616,000 during the reporting period. The activities carried out within the frame of social responsibility are detailed under the heading "Commitment to Social Responsibility".

## COMMITMENT TO SOCIAL RESPONSIBILITY

Aspiring to crown its 85th anniversary with an extensive project in 2010, Anadolu Sigorta designed a social responsibility project aligned with the corporate strategy and the expectations of the target audiences. The project was named "Bir Usta Bin Usta" (One Master, Thousand Masters), perfectly corresponding to its scope and content.

The objective of the project "Bir Usta Bin Usta" (One Master, Thousand Masters) is to focus the public attention on vanishing crafts and local values, to revive these crafts, and to be instrumental in letting professional craftsmen and artisans pass on their experiences to the future.

The project is conducted under the technical advisory of the Ministry of Culture, Research and Training Directorate. During the course of the project, the Ministry of Culture proposes cities and city-specific crafts that are about to vanish, identifies the NGOs, and guides Provincial Directorates of Culture.

Under the project, five cities and callings are selected from among those proposed by the Ministry of Culture every year, and 15 to 20 trainees receive training for each vocation. The Company aims to extend support to 50 vocations and a total of 1,000 masters-to-be over the course of 10 years.

The cities and crafts identified within the frame of the project "Bir Usta Bin Usta" (One Master, Thousand Masters) are listed below:

- Turkish shadow play (Karagöz) illustration in Bursa, meerschaum carving in Eskişehir, woodwork ornaments (Edirnekâri) in Edirne, kutnu fabric weaving in Gaziantep, and gold and silver thread making (Kazaziye) in Trabzon in 2010
- Kargı fabric weaving in Çorum, silk weaving in Hatay, stone carving in Mardin, horn combs in Sivas, Savatlı silverwork in Van in 2011
- Mother-of-pearl inlaying in Ankara, rug and saddlebag weaving in Kars, glass blowing in Muğla, pottery in Nevşehir and handprinted scarf making in Tokat.

Trainees received basic training on the relevant vocations in courses organized by the non-governmental organizations designated by the Ministry of Culture in these cities.

Under the project, an exclusive initiative was held in collaboration with İz TV, a national documentary channel. Led by Coşkun Aral, the TV channel selected four of the cities identified for 2010 and 2011 and produced a documentary of the project. In addition, İz TV photographs the training period in each city, creating an archive. The photographs are to be compiled in a special album.

Anadolu Sigorta collaborates with TURMEPA (Turkish Marine Environment Protection Association) to prevent marine pollution and to contribute to the combat against pollution. Based on the protocol with TURMEPA, the Association that spends efforts to clean the marine environment in Turkey receives a share from the revenues generated by the insurance coverage sold to any type of vessel. The protocol for this cooperation has been in force since 2011.

# THE COMPANY'S TRANSACTIONS WITH THE RISK GROUP

Within the framework of the applicable provisions of the Turkish Commercial Code (TCC), our company is a subsidiary of İşbank Group [during 2012 fiscal year]. Pursuant to Article 199 of the TCC, the Company's Board of Directors presented the declaration below in the conclusion of the affiliation report issued in relation to its relations with the controlling company or an affiliate thereof:

Between our Company and our controlling shareholder İşbank and other 'Group Companies', there is no:

- Transfer of receivables, payables or assets,
- Legal transaction creating liability such as providing suretyship, guarantee or endorsement,
- Legal transaction that might result in transfer of profit.

Commercial transactions the Company realized with its controlling shareholder and other Group Companies during 2012, which are detailed in the report, are required by the Company's activity and were carried out on an arm's length basis. In all of the transactions the Company realized in 2012 fiscal year with the controlling company and its affiliates, any and all legal acts carried out in favor of the controlling company or its affiliate with guidance from the controlling company, and any and all actions taken or avoided in favor of the controlling company or its affiliates in 2012 have been reviewed according to the conditions and circumstances known to us. We hereby declare that our Company did not register any such loss on account of any transaction arising according to conditions and circumstances known in relation to 2012 fiscal year.

Details of the Company's transactions with the risk group during 2012 and related disclosures are presented in Note no. 45 under the notes to the financial in the present report.

# POTTERY

POTTERY

As pottery lives on in Nevşehir as a tradition that has survived since the time of the Hittites, the red clay brought by Kızılırmak, the Red River, and the ceramic clay obtained from alluvium are molded in the hands of ceramic artists from Avanos. The pottery craft that has been using the potter's wheel since the Hittites was passed on from one tribe to the other, from father to son and still lives today. Soft and fatty clay from the mountains of Avanos and the old beds of Kızılırmak is sifted and then kneaded thoroughly to form a clay body. The clay placed on the kick wheel called "çark" in Turkish is skillfully shaped, resulting in the desired pottery. The pottery produced in workshops, "işlik," are dried first in the sun and then in the shade, after which they are carefully fired in furnaces at a temperature of 800oC and working its way up to 1200oC. Food containers, water jugs, crocks for storing food for the winter and water pipes in the region are all pottery products.

# FINANCIAL STATUS

## SUMMARY REPORT BY THE BOARD OF DIRECTORS

Dear Shareholders,

Before presenting the 2012 financial statement figures covering the Company's 87th year of operation for your reviews and comments, we deem it useful to recap the changes and developments in economic life and the insurance sector.

Although it has been almost five years since the global crisis, global economy continued to underperform in 2012 as a result of various reasons including the sustained uncertainties in the Eurozone and USA, and increased oil prices. Global economy weakened again as the issues triggered by the deteriorated public finance and weak banking particularly in the Eurozone permeated other regions through declined trade and trust. Economic and political developments in the Eurozone continued to be telling on the global outlook and they still continue in the same vein. As Eurozone economies sustained contraction in 2012, growth in Japan and the USA floated close to pre-crisis levels. Overall, growth in developed countries is yet to recapture pre-crisis levels.

As a result of these developments in global economy, international agencies revised their growth projections downwards. After projecting the worldwide growth for 2012 at 4% in September 2011, the International Monetary Fund (IMF) revised this figure as 3.5% in April 2012 and 3.3% in October 2012. Finally, the update report issued in January 2013 cited 3.2% as the actual worldwide growth figure. The same update decreased the worldwide growth projection for 2013 from 4.1% to 3.5%, reporting an estimated growth of 5.5% for emerging and developing economies in 2013.

Having ranked among the world's fastest growing countries with a GDP growth rate of 8.5% in 2011, Turkey's growth adopted a decelerating trend in the face of global uncertainties and increased current deficit, and stood at 3.1% in the first half of 2012. While domestic demand pushed growth down by 0.5 points in the first half of 2012, foreign demand contributed 5.1 points to growth. The Turkish economy, successfully sustaining the soft landing process in this period of continued and increased uncertainties in global economy, is estimated to have grown 3.2% in 2012 with a projected growth rate of 4-4.5% for 2013.

The annual rate of increase in CPI stood at 6.2% at the end of the year, a result of the decelerated economic activity and substantial reflection of the lagging effects of the exchange rate in the January-November period, combined with the positive course of unprocessed food prices in the first half of the year. The annual rate of increase in PPI, on the other hand, which had gained momentum basically in connection with the developments in international commodity prices and exchange rates in 2011, began losing pace with the effect of the deceleration in the factors mentioned above in 2012, and was 2.5% at the end of the year.

The ISE-100 index hiked by 52.6% year-on-year and closed 2012 at 78,208 points, a result contributed by the credit rating agency Fitch's upgrading of Turkey's rating by one notch to investment grade on 5 November 2012 after an 18-year interval.

In 2012, non-life insurance industry was affected by the decelerated growth rate and the shrank trading volume of the global economy. As a result, the demand for insurance remained flat; premium production, however, grew 3% in real terms due to the increased prices introduced by the insurers in developed economies. Thus, the increase in premium production was slightly higher than the 2.3% figure of 2011.

In 2011, non-life branches saw increased prices and increased premium production, whereas life branch saw slumped premiums. When compared with 2010, worldwide direct premium production including life showed a 6% nominal increase and reached a record USD 4,597 billion. However, premium production was down 0.8% in real terms due to the fact that the US dollar depreciated against other major currencies. There was 2.3% real growth in premium production in non-life insurance branches and total premiums amounted to USD 1.97 trillion. In the life branch, on the other hand, premiums declined by 2.7% to USD 2.63 trillion.

It can be suggested that the Turkish insurance sector performed successfully in 2012 on the basis of premium figures, as it had done in the previous year. In view of the year-end 2012 data, non-life branches got 86.3% share of total production, while premium production reached TL 17,116 million. Premiums on life insurance, on the other hand, amounted to TL 2,711 million, taking a 13.7% share of total production. The nominal growth in non-life branches was 18.2%, translating into a real growth figure of 11.4% considering the annual CPI of 6.2% as at year-end 2012.

Although the sector was successful in premium production figures, the positive results on the production increase side did not descend in financial statements as profit. Non-life insurance sector booked a total technical loss of TL 99 million in the first three quarters of 2012 and the after-tax net loss was worth TL 176 million. On the basis of the results by branches, motor vehicles branch and motor vehicles liability branch posted technical losses of TL 102 million and TL 505 million, respectively, in the first nine months of 2012. The sector generated the highest technical profit in general losses branch with TL 125 million, in the health branch with TL 120 million, and in the accident branch with 118 million.

The agency agreements executed between insurance companies and banks, a rising trend since the second half of last year, continued with the cooperation Generali Insurance established with Anadolubank in 2012. Deniz Pension company that was sold to MetLife in 2011 was renamed to MetLife Pension and Life in 2012.

In addition, Sompo Japan company signed a 15-year agency contract with Finansbank. Under the contract, Finansbank will be selling non-life insurance products of Sompo Japan.

A significant regulatory change took place on the Private Pension System front, and new arrangements were introduced concerning the Private Pension System in the saving incentives scheme released in June 2012. The arrangements that will go into force in 2013 introduce the principle of 25% state subsidy to the system, which are intended to be instrumental in increasing Private Pension savings.

A review of the Company's financials and operating results reveal that our assets were up 13.1% year-on-year and reached TL 2,498 million, whereas premium production grew 16% and was worth TL 2,235 million, translating into a market share of 13.1%. At 33.3%, motor vehicles branch took the largest share of total premium production. This was followed, in order, by motor vehicles liability with 21.6%, fire and natural disasters with 15.6%, and illness/health with 9.4%. Technical results followed a negative course with the impact of the loss/premium ratio that rose from 76.7% to 81.2% during 2012, and TL 63.9 million was posted as loss at the end of the year. The price-based competition dominating the sector and the lower financial income relative to prior years gave rise to the issue of unprofitability both for the sector and the Company.

The Company's goal in 2013 will be furthering the quality service, leadership, innovation and customer-focus concepts to ensure production increase in real terms and achieving sustainable profit.

# FINANCIAL INFORMATION AND INDICATORS

| Financial Highlights (TL thousand) | 2012 | 2011 |
|---|---|---|
| Total Premium Production | 2,234,633 | 1,926,090 |
| Total Assets | 2,498,198 | 2,209,016 |
| Claims Paid | 1,371,855 | 1,018,263 |
| Paid-in Capital | 500,000 | 500,000 |
| Shareholders' Equity | 756,361 | 705,124 |
| Pretax Profit/Loss | -63,981 | 4,069 |
| Net Profit/Loss | -63,981 | 4,069 |

| Capital Adequacy Ratios | 2012 | 2011 |
|---|---|---|
| Premiums Received/Shareholders' Equity | 2.95 | 2.73 |
| Shareholders' Equity/Total Assets | 0.30 | 0.32 |
| Shareholders' Equity/Technical Provisions | 0.54 | 0.58 |

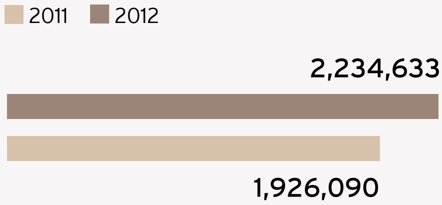
| Asset Quality and Liquidity Ratios | 2012 | 2011 |
|---|---|---|
| Liquid Assets/Total Assets | 0.53 | 0.56 |
| Liquidity Ratio | 1.29 | 1.37 |
| Current Ratio | 0.79 | 0.86 |
| | 0.26 | 0.25 |
| Receivables from Agencies/Shareholders' Equity | 0.64 | 0.64 |

| Operational Ratios | 2012 | 2011 |
|---|---|---|
| Retention Ratio | 0.78 | 0.77 |
| Claims Payment Ratio | 0.70 | 0.71 |

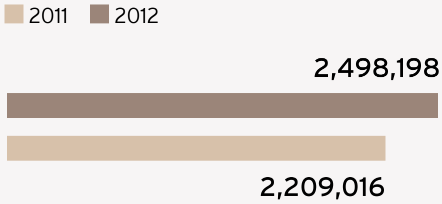
| Profitability Ratios | 2012 | 2011 |
|---|---|---|
| Loss-Premium Ratio | 0.81 | 0.77 |
| Cost Ratio | 1.11 | 1.07 |
| Pretax Profit/Premiums Received | -0.03 | 0.00 |
| Financial Profit (Gross)/Premiums Received* | 0.06 | 0.05 |
| Technical Profit/Premiums Received | -0.03 | -0.01 |

* In the calculation of financial profit, investment income that was transferred from the non-technical division to the technical division was excluded in the investment expenses figure.

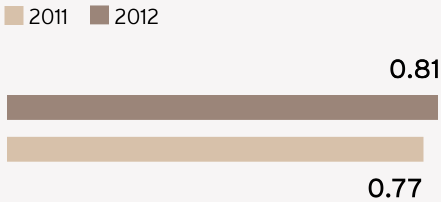
## Total Premium Production
(TL thousand)



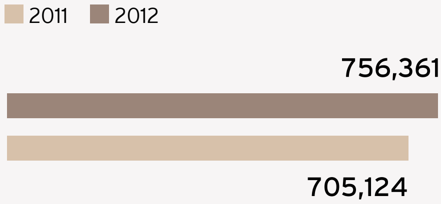

## Total Assets
(TL thousand)




## Loss-Premium Ratio
(%)




## Shareholders' Equity
(TL thousand)



# 2012 ECONOMIC OVERVIEW

## The World Economy

Although it has been almost five years since the global crisis, global economy continued to underperform in 2012 as a result of various reasons including the sustained uncertainties in the Eurozone and USA, and increased oil prices. Global economy weakened again as the issues triggered by the deteriorated public finance and weak banking particularly in the Eurozone permeated other regions through declined trade and trust. Economic and political developments in the Eurozone continued to be telling on the global outlook and they still continue in the same vein. As Eurozone economies sustained contraction in 2012, growth in Japan and the USA floated close to pre-crisis levels. Overall, growth in developed countries is yet to recapture pre-crisis levels. As a result of these developments in global economy, international agencies revised their growth projections downwards. After projecting the worldwide growth for 2012 at 4% in September 2011, the International Monetary Fund (IMF) revised this figure as 3.5% in April 2012 and 3.3% in October 2012. Finally, the update report issued in January 2013 cited 3.2% as the actual worldwide growth figure. The same update decreased the worldwide growth projection for 2013 from 4.1% to 3.5%. According to the IMF report released in January, 2012 growth rate estimation for developed economies is 1.3%, whereas the projected growth for 2013 is 1.4%. Having expanded 5.1% in 2012, emerging and developing economies are projected to grow 5.5% in 2013. Projected growth for USA for the same period is 2.0%.

| | 2011 | 2012 (E) | 2013 (P) |
|---|---|---|---|
| **Growth (%)** | | | |
| Global | 3.8 | 3.3 | 3.6 |
| USA | 1.8 | 2.2 | 2.1 |
| Eurozone | 1.4 | -0.4 | 0.2 |
| Japan | -0.8 | 2.2 | 1.2 |
| China | 9.2 | 7.8 | 8.2 |
| Turkey | 8.5 | 3.2 | 4.4 |
| Developing Countries | 6.2 | 5.3 | 5.6 |
| **Inflation (%)** | | | |
| USA | 3.1 | 2.0 | 1.8 |
| Eurozone | 2.7 | 2.3 | 1.6 |
| Japan | -0.3 | 0.0 | -0.2 |
| China | 5.4 | 3.0 | 3.0 |
| Turkey | 10.4 | 6.5 | 5.7 |
| Developing Countries | 7.2 | 6.1 | 5.8 |

Source: IMF World Economic Outlook, October 2012 (E): Estimate, (P): Projection

Oil prices followed a fluctuating course during 2012. After hiking in the first quarter due to the political developments in the Middle East earlier in the year, oil prices declined in the second quarter of 2012 due to the slackened demand pressure that resulted from the positive developments on the supply side and the decelerated global economic activity; however, oil prices readopted a rising trend in the second half of the year. Increased food prices were driven by the issues that resulted in the agricultural production from the drought that dominated certain geographies, and particularly the USA that is reported to have sustained the severest drought of the past fifty years, and the stocks that continued to remain below the historic average. These hikes in agricultural commodity prices create an upward risk on processed food prices, and therefore, on inflation in developing countries. The floating commodity prices, on the other hand, add to the volatility. In addition to these developments in oil and food prices, the US Fed's and ECB's (European Central Bank) monetary expansion policies resulted in an inflation rate of 4.9% on global scale in 2011, which is estimated to be 4% in 2012 and 3.7% in 2013. 2.7% in 2011, inflation rate in developed economies is anticipated to stand at 1.9% in 2012 and 1.6% in 2013. The inflation rate in emerging and developing countries, which was 7.2% in 2011, is estimated to be 6.1% in 2012 and 5.8% in 2013.

In the Eurozone that continued to be the key decider for the global economic outlook in 2012 as it did in 2011, the crisis turned into recession despite the austerity measures in Greece, restructuring of the debt made up of Greek bonds held by the private sector, the expansion of the size of the European Financial Stability Facility (EFSF) to EUR 800 billion, and the ECB's long-term refinancing operation that amounted to EUR 1 trillion. While the banking and debt crisis that emerged in Spain on one hand and increased oil and commodity prices on the other led to deteriorated macroeconomic environment in the second half of 2012, economic activity slowed down even in Germany. Although the decisions passed for resolving the debt crisis somewhat improved the markets in the first quarter of 2012, the markets were negatively impacted by the increased cost of borrowing for Spain and Italy, and the doubts about the health of their fiscal systems. In this period, ratings of the economies and banks suffering from the crisis have been downgraded by credit rating agencies. In the process, the bond-buying program announced by the ECB revived the financial markets and the economy even if at a limited extent.

Although the US economy failed to attain the desired momentum in 2012, it performed better than Eurozone. While the economy that expanded by 2% and the unemployment rates that went down to their lowest in three years in the first quarter of the year created a positive atmosphere, the economy that achieved 1.3% growth in the second quarter reversed this mood to negative. On 12-13 September 2012, the US Federal Reserve Bank announced its decision for a new round of a quantitative easing (QE3) and a third round of bond purchasing program in an effort to revive the US economy and to reduce unemployment. Following the US general elections of November, the priority for USA was the fiscal cliff issue, which will deeply impact the global economy as well, and an important step was taken to hamper this risk with the draft budget passed by the Senate and the House of Representatives in the early days of 2013.

China, the world's second largest economy, registered the lowest growth in three years in the second half of 2012. Decreased demand from Europe and USA adversely affected exports, one of the main pillars of the Chinese economy, and the country's domestic demand figures proved insufficient to counter this shortage.

In 2012, no marked improvement is anticipated in employment in parallel with the decelerated global economic activity. As the unemployment rates that quickly hiked in developed countries in the aftermath of the crisis still float high above the pre-crisis levels, unemployment is expected to go up to 9.1% at the end of the year. ILO (International Labor Organization) revised unemployment rates upwards in April, due to the weak economic performance in developed countries. Unemployment rates in 2012 for USA and Eurozone are estimated as 8.2% and 11.2%, respectively. The rate of unemployment is projected to remain flat in the USA and to slightly increase and reach 11.5% in the Eurozone in 2013.

**The Turkish Economy**

Having ranked among the world's fastest growing countries with a GDP growth rate of 8.5% in 2011, Turkey's growth adopted a decelerating trend in the face of global uncertainties and increased current deficit, and stood at 3.1% in the first half of 2012. While domestic demand pushed growth down by 0.5 points in the first half of 2012, foreign demand contributed 5.1 points to growth. The Turkish economy, successfully sustaining the soft landing process in this period of continued and increased uncertainties in global economy, is estimated to have grown 3.2% in 2012 with a projected growth rate of 4-4.5% for 2013.

Imports slimmed down as result of the slow economic activity during the first nine months of 2012, as a result of which the current deficit declined from USD 77.1 billion in 2011 to USD 56 billion. This tendency is expected to sustain through the rest of the year and bring the ratio of current deficit to GDP from 10% in 2011 to 7.3% at year-end 2012.

Having adopted a downturn from February 2012, imports went down by 2.3% year-on-year at the end of 2012 to USD 235.5 billion. As opposed to the decline in overall imports, energy imports went up, with the effect of increased oil prices. In 2012, exports grew by 13.1% year-on and reached USD 152.6 billion, while exports to EU countries eroded by 4.8% versus 2011 and was worth USD 4.9 billion, and its share of total exports went down from 41.7% to 39.2%. The decline in EU destinations was compensated by exports to North African and Asian countries.

## As the global economy continued to underperform in 2012, Turkey's growth adopted a decelerating trend in view of the uncertainties on global scale and increased current deficit.

| Exchange Rates (CBRT Buying) | 01.01.2012 | 31.12.2012 | Change (%) |
|---|---|---|---|
| US dollar/TL | 1.8889 | 1.7826 | -5.6 |
| Euro/TL | 2.4438 | 2.3517 | -3.8 |

Annual CPI increase, after remaining flat in the first quarter of 2012, rose to 11.1% with the impact of the rise above seasonal means in clothing and footwear prices in April, coupled with the adjustment to the natural gas prices. Having gone down to 8.3% in May 2012 with the effect of the positive base effect, annual CPI increase stood at 6.4% at the end of November and went further down to 6.2% at the end of the year, a result of the decelerated economic activity and substantial reflection of the lagging effects of the exchange rate during the first nine months, combined with the positive course of unprocessed food prices in the first half of the year. On another front, the annual rate of increase in PPI, which had gained momentum basically in connection with the developments in international commodity prices and exchange rates in 2011, began losing pace with the effect of the deceleration in the factors mentioned above in 2012, and was 2.5% at the end of the year. As agricultural prices took a fluctuating course due to seasonal developments, monthly rising trend of the manufacturing industry prices remained at quite low levels during 2012.

The Central Bank of the Republic of Turkey (CBRT) continues with its monetary policy implementations within the frame of inflation targeting regime, in keeping with its basic purpose of ensuring and maintaining price stability. The Bank also takes actions that will ensure stability in the financial system given the fact that price stability and financial stability are two crucial macroeconomic targets. In this context, the Bank effectively uses alternative tools such as the interest rate corridor (the difference between overnight lending and borrowing rates), required reserves and liquidity management, as well as one-week repo rate that represents the key monetary policy tool.

The Turkish lira appreciated against the US dollar thanks to the actions taken by the CBRT and the increased foreign capital inflow by early 2012. The Chinese growth rate that remained below the expectations in the first quarter of 2012 strengthened the course of the US dollar against the currencies of developing countries. The US dollar gained value against euro due to the increased concerns over the future of euro in the aftermath of the elections held in May in Greece. In August 2012, the upper limits for the composition of TL required reserves in gold and foreign currency was increased to 30% and 60%, respectively. This resulted in 6% expansion in the CBRT's foreign currency reserves in one month, which rose to USD 92,996 million. 2012 proved to be a more competitive year than 2011 with respect to exchange rates because of the rises in stock exchange and the drops in interest rates on bonds.

Although the rate of unemployment showed increase in the first months of 2012, it adopted a downward trend afterwards, and remained flat at 9.1% in October on a year-to-year basis. In the same period, non-agricultural unemployment decreased by 0.2 points year-on-year to 11.4%, and the youth unemployment rate went down by 0.7 points to 18.1%. In October 2012, labor force participation rate was up by 1 point year-on-year and reached 51.0%. Labor force participation rate and unemployment rate are estimated at 49.6% and 9% respectively for 2012. In 2013, 495,000 new jobs are expected to be added and the unemployment rate is projected to register 8.9% in conjunction with the projected increased growth and investments.

Having closed the year 2011 with a 24% fall, the ISE-100 index exceeded the 60,000 mark in February 2012, the first time since September 2011. This was a result of the funds inflow into developing markets and the positive bond tenders in the distressed Eurozone economies. The pressure to sell further grew due to various reasons including the concerns over the economic deceleration in China, US employment data that remained below the expectations, decreased Q1 profits in the Turkish banking industry, and Turkey's credit rating outlook cut to stable from positive by Standard&Poor's. However, the ISE-100 index, which began hiking in July in line with the improved current deficit and declined interest rates, surpassed 72,000 at the end of October, as a result of the continued positive course in the Eurozone and the inflation projection pulled down by the CBRT. Triggered by Fitch's upgrading Turkey's rating by one notch to investment grade on 5 November 2012 after an 18-year interval, the rally helped put the ISE-100 index up by 9.5% and close the year at 78,208 points.

# AN OVERVIEW OF THE GLOBAL AND TURKISH INSURANCE INDUSTRIES AND FUTURE OUTLOOK

## The Global Insurance Industry

In 2012, non-life insurance sector was influenced by the decelerated growth rate and the shrank trading volume of the global economy. As a result, the demand for insurance remained flat; premium production, however, grew 3% in real terms due to the increased prices introduced by the insurers in developed countries. Thus, the increase in premium production was slightly higher than the 2.3% figure of 2011.

On the other hand, insurance companies now enjoy stronger capitalizations contributed by the relatively average level of catastrophe losses in 2012 as compared with the previous years. Insurers were thus able to retain more risks on the back of their increased capitalization, in turn leading to reduced need for reinsurance, which put a downward pressure on reinsurance prices.

During 2011, non-life branches saw increased prices and higher premium production, while life branch sustained decreased premiums. Compared to the year 2010, worldwide direct premium production including life was up 6% nominally and reached a record USD 4,597 billion. However, premium production was down by 0.8% in real terms due to the depreciation of the US dollar against other major currencies. Premium production achieved 2.3% real growth in non-life insurance, and total premiums were worth USD 2.0 trillion. In the life branch, on the other hand, premiums decreased by 2.7% and stood at USD 2.6 trillion.

The chart below presents premium productions in non-life branches and real changes therein by continents and the development levels of countries.

In 2012, reinsurance capital expanded 10% year-on-year and reached a historic high of USD 500 billion. Nonetheless, while the demand remained stable for reinsurance coverage against catastrophes in the insurance sector, it declined for non-catastrophe reinsurance coverage.

Supply of reinsurance continued to outstrip the demand.

The insurance industry had a positive half-year in the first half of 2012 with respect to the cost of natural disasters to the insurance sector as claims paid remained below the average of the past decade. However, Hurricane Sandy marked the last quarter of the year as the second highest insured loss of the Atlantic Ocean known in the history, causing total losses of USD 19 million primarily in the USA, as well as in various other countries. As a result, total insured catastrophe losses amounted to USD 48.4 billion in 2012. 2012 is considered as an average year in terms of insured catastrophe losses, given the USD 47.4 billion average of insured catastrophe losses from 2003 through 2011.

2012 is regarded as a good year in terms of cat bonds and the production of insurance investment instruments. At USD 6.3 billion, cat bonds production reached its second highest sum in history. In addition,

World Insurance Industry – Non-Life Branches Premium Production*

| | Premium Production (USD million) | | Inflation-Adjusted Change (%) | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| **Americas** | **825,230** | **792,318** | **0.0** | **0.3** |
| North America | 736,152 | 718,847 | -1.1 | -0.2 |
| Latin America and the Caribbean | 89,078 | 73,471 | 10.7 | 5.6 |
| **Europe** | **713,699** | **658,573** | **1.3** | **0.8** |
| Western Europe | 641,630 | 589,855 | 0.7 | 1.1 |
| Central and Eastern Europe | 72,069 | 68,718 | 6.7 | -1.4 |
| **Asia** | **356,180** | **306,423** | **7.0** | **9.0** |
| Japan and Developed Asian Countries | 207,727 | 182,424 | 5.0 | 3.3 |
| South and East Asia | 118,792 | 98,788 | 10.2 | 22.3 |
| Middle East and Central Asia | 29,662 | 25,211 | 8.9 | 5.8 |
| **Africa** | **21,782** | **19,965** | **3.3** | **3.4** |
| **World (*)** | **1,969,519** | **1,819,310** | **2.3** | **1.9** |
| Developed Countries | 1,635,435 | 1,530,594 | 0.5 | 0.7 |
| Developing Countries | 334,084 | 288,716 | 9.1 | 8.8 |

* Based on initial data, worldwide premium production grew 3% in real terms during 2012.

In 2012, non-life insurance sector was influenced by the decelerated growth rate and the shrank trading volume of the global economy.

the total amount of bonds available in the market came to a historic high with USD 16.5 billion. In this vein, cat bonds have proven themselves as a significant alternative against classic reinsurance and become a factor that kept reinsurance prices under a downward pressure during 2012. After closing 2011 with 2.8% return, the cat bond market saw returns that reached 10.3% in 2012. The catastrophe bond market closed 2012 at a price level close to that of 2011.

Setting out the requirements for capital adequacy in the European insurance sector and three times postponed before, the effective date of Solvency II directive has been delayed to 1 January 2014. Yet, it is evident that companies are still not ready for the implementation. The European Insurance and Occupational Pensions Authority (EIOPA) stated that 1 January 2014 is not an achievable target for putting Solvency II requirements into effect, and that the date needs to be postponed to no earlier than 2015. However, the new schedule is yet to be announced. It is discussed that Solvency II requirements might be put into practice in part during 2014.

There was a pronounced decrease in acquisitions and mergers in the world insurance and reinsurance sector in 2012. The business volume generated through mergers and acquisitions slumped by 63% year-on-year in 2012. Decrease in mergers and acquisitions was driven mainly by the companies' market capitalizations that floated close to historic lows based on their balance sheet values and owners' reluctance to sell at these low market prices.

## The Turkish Insurance Industry and Future Outlook

The insurance industry performed well in 2012 in terms of premium figures, as it did in 2011. Based on year-end 2012 data, premium production on non-life branches amounted to TL 17,116 million, corresponding to a share of 86.3% of total production. Life insurance premium production reached TL 2,711 million and accounted for 13.7% of the total premium production.

While the nominal growth in non-life branches was 18.2%, the real growth emerges as approximately 11.4% points when the 6.2% CPI at the end of the year is taken into account. The expansion in real terms is expected to continue in the year ahead.

Even though the industry captured growth in premium production figures, the positive results in premium increase did not descend in financial statements as a profit figure. Total technical loss of the non-life sector amounted to TL 99 million in the first nine months of 2012, translating into an after-tax loss of TL 176 million. Looking at the results on the basis of branches, motor vehicles branch wrote a technical loss of TL 102 million, and motor vehicles liability branch TL 505 million in the first three quarters of 2012. The highest profit generators in the overall sector were general losses branch with TL 125 million, health branch with TL 120 million and accident branch with TL 1118 million.

While the global reinsurance capacity expanded significantly in 2012, there was not a matching increase in the capacity supplied to the Turkish insurance sector. One reason for the restricted increase of reinsurance capacity in Turkey is probably the fact that reinsurers were confronted with claims that highly exceeded their estimations because of the earthquakes in Chile, New Zealand and Japan in previous years, resulting in their unwillingness to further increase their capacities in another country exposed to the earthquake risk, being Turkey. On the other hand, demand for reinsurance protection grew in our country in parallel with the increased insured values and risk accumulation. Such imbalance of the demand versus supply has become a pressure element pushing the reinsurance prices upwards in Turkey. The reinsurance capacity issue is expected to persist in the year ahead in connection with the increase in insurance production that outpaces the world average.

The agency agreements executed between insurance companies and banks, a rising trend since the second half of last year, continued with the cooperation Generali Insurance established with Anadolubank in 2012.

Deniz Pension company that was sold to MetLife in 2011 was renamed to MetLife Pension and Life in 2012.

In addition, Sompo Japan company signed a 15-year agency agreement with Finansbank. Under the agreement, Finansbank will be selling non-life insurance products of Sompo Japan.

A significant regulatory change took place on the Private Pension System front, and new arrangements were introduced concerning the Private Pension System in the saving incentives scheme released in June 2012. The arrangements that will go into force in 2013 introduce the principle of 25% state subsidy to the system, which are intended to be instrumental in increasing Private Pension savings.

While insurance ownership ratio is still low in our company, the recent positive developments reveal that the Turkish insurance and private pension sectors are undergoing a significant development phase and growing rapidly. In view of the developments in economic conditions and the increased demand of the foreign capital, insurance and private pension sectors are anticipated to come to a position of even greater importance for the national economy and the financial services sector in the near future.

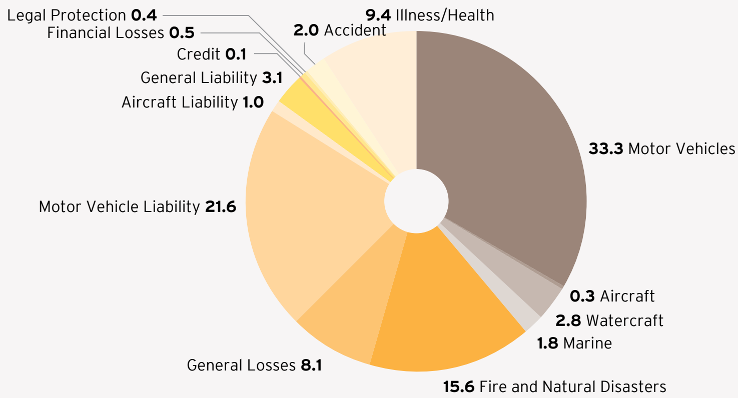
In 2012, worldwide insurance sector was impacted by the decelerated growth rate. The Turkish insurance sector, on the other hand, performed well in terms of premium figures as it did in 2011.

| Branches | 2012-12 Premium Production | Share (%) | 2011-12 Premium Production | Share (%) | Change (%) |
|---|---|---|---|---|---|
| Accident | 669,898,803 | 3.4 | 662,750,825 | 3.9 | 1.1 |
| Illness/Health | 2,237,100,853 | 11.3 | 1,998,946,945 | 11.6 | 11.9 |
| Motor Vehicles | 4,533,678,699 | 22.9 | 3,787,423,404 | 22.1 | 19.7 |
| Rail Vehicles | 256,342 | 0.0 | 817,289 | 0.0 | -68.6 |
| Aircraft | 49,384,012 | 0.2 | 69,392,164 | 0.4 | -28.8 |
| Watercraft | 133,166,490 | 0.7 | 122,273,303 | 0.7 | 8.9 |
| Marine | 377,880,621 | 1.9 | 358,509,670 | 2.1 | 5.4 |
| Fire and Natural Disasters | 2,645,119,291 | 13.3 | 2,309,346,875 | 13.5 | 14.5 |
| General Losses | 1,741,950,686 | 8.8 | 1,474,292,549 | 8.6 | 18.2 |
| Motor Vehicle Liability | 3,937,051,733 | 19.9 | 2,974,128,684 | 17.3 | 32.4 |
| Aircraft Liability | 78,766,956 | 0.4 | 75,774,884 | 0.4 | 3.9 |
| Watercraft Liability | 438,040 | 0.0 | 261,366 | 0.0 | 67.6 |
| General Liability | 419,997,806 | 2.1 | 386,298,119 | 2.3 | 8.7 |
| Credit | 74,468,868 | 0.4 | 51,359,824 | 0.3 | 45.0 |
| Fidelity | 19,175,517 | 0.1 | 12,346,371 | 0.1 | 55.3 |
| Financial Losses | 135,549,791 | 0.7 | 140,355,871 | 0.8 | -3.4 |
| Legal Protection | 58,086,280 | 0.3 | 52,653,354 | 0.3 | 10.3 |
| Support | 3,739,251 | 0.0 | 2,475,594 | 0.0 | 51.0 |
| **Total Non-Life** | **17,115,710,039** | **86.3** | **14,479,407,092** | **84.4** | **18.2** |
| **Life** | **2,710,778,017** | **13.7** | **2,685,674,090** | **15.6** | **0.9** |
| **Grand Total** | **19,826,488,056** | **100.0** | **17,165,081,182** | **100.0** | **15.5** |

Source: Insurance Association of Turkey

# AN ASSESSMENT OF ANADOLU SİGORTA IN 2012

## Premium Production 2011-2012 (%)




| Branch | Share (%) | İncrease in Premium Production (%) |
|---|---|---|
| Accident | 2.0 | 10.0 |
| Illness/Health | 9.4 | 14.3 |
| Motor Vehicles | 33.3 | 11.0 |
| Aircraft | 0.3 | -8.2 |
| Watercraft | 2.8 | 14.7 |
| Marine | 1.8 | 9.3 |
| Fire and Natural Disasters | 15.6 | 26.1 |
| General Losses | 8.1 | 13.6 |
| Motor Vehicle Liability | 21.6 | 17.6 |
| Aircraft Liability | 1.0 | 69.1 |
| General Liability | 3.1 | 25.6 |
| Credit | 0.1 | -29.9 |
| Financial Losses | 0.5 | 59.1 |
| Legal Protection | 0.4 | 19.2 |
| **Total** | **100.0** | **16.0** |

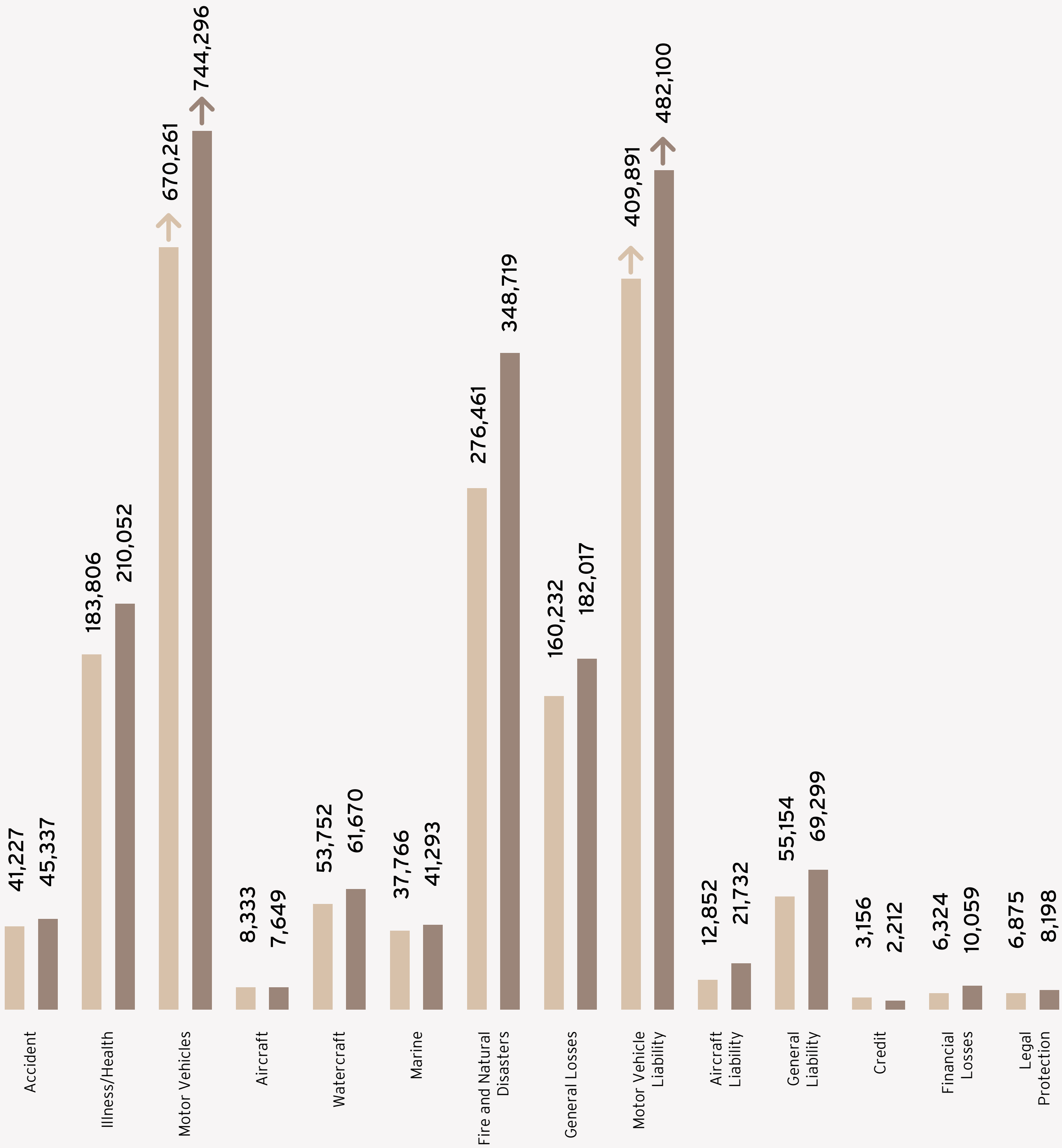
Anadolu Sigorta is an insurer active in non- life branches, which include accident, illness/health, motor vehicles, aircraft, watercraft, marine, fire and natural disasters, general losses, motor vehicle liability, aircraft liability, general liability, credit, financial losses and legal protection.

## Premium Production and Technical Results

Anadolu Sigorta's direct premium production reached TL 2,153 million in 2012. With the addition of TL 82 million in reinsurance premiums, the Company's total premium production amounted to TL 2,235 million last year.

With 33.3%, motor vehicles branch commands the biggest share of the total portfolio. This is followed by motor vehicle liability, fire and natural disasters, and illness/health branches.

**Premium Production 2011-2012** (TL thousand) 2011 2012

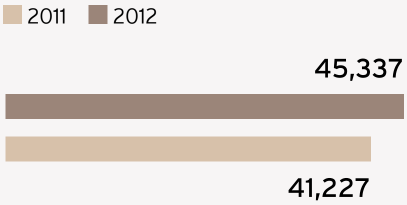


## ACCIDENT

Premium production in the accident branch was up 10% year-on-year and amounted to TL 45,337 thousand in 2012. Claims paid in this branch totaled TL 13,902 thousand. The accident branch booked a technical profit of TL 9,230 thousand in 2012, translating into a significant year-on rise by 49.8%.

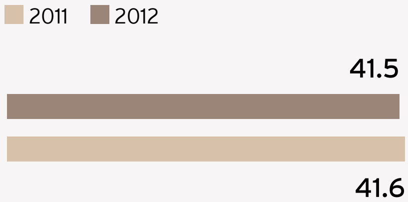
### Premium Production

(TL thousand)



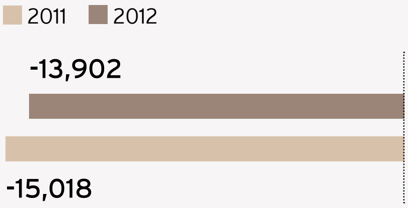

### Loss Premium Ratio

(%)



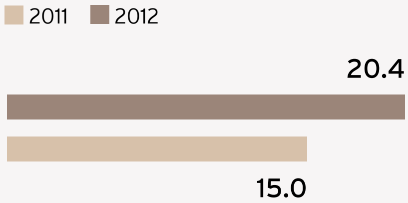

### Claims Paid

(TL thousand)




### Technical Profitability

(%)

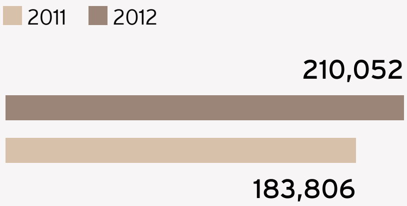



## ILLNESS/HEALTH

In 2012, Anadolu Sigorta's premium production on illness/health branch grew 14.3% year-on-year and amounted to TL 210,052 thousand, while claims paid totaled TL 166,426 thousand. While technical accounts showed a technical loss of TL -5,832 thousand in 2011, Anadolu Sigorta posted TL 13,854 thousand in technical profit at the end of 2012.

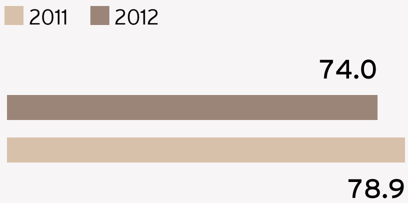
### Premium Production

(TL thousand)



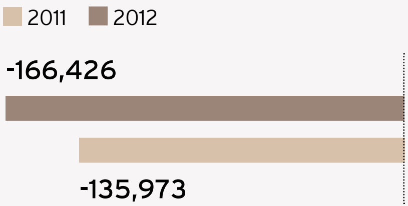

### Loss Premium Ratio

(%)



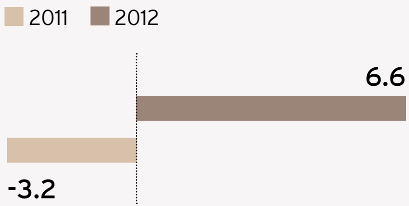

### Claims Paid

(TL thousand)




### Technical Profitability

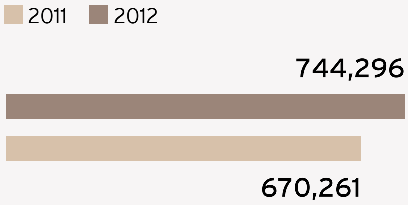
(%)



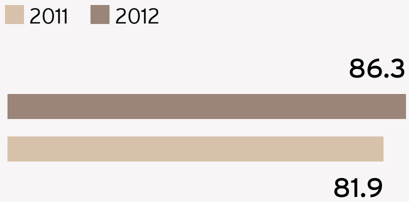
## MOTOR VEHICLES

Anadolu Sigorta increased its premium production on motor vehicles insurance by 11% year-on, amounting to TL 744,296 thousand. Claims paid in this branch in 2012 reached TL 601,043 thousand; on the bottom line, technical accounts showed a loss of TL -87,590 thousand.

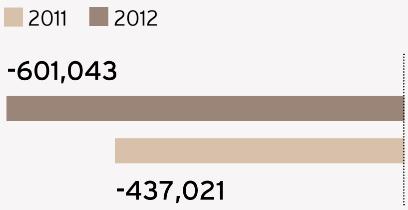
### Premium Production
(TL thousand)



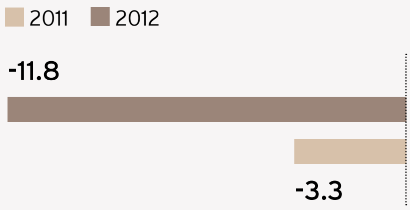

### Loss Premium Ratio
(%)




### Claims Paid
(TL thousand)



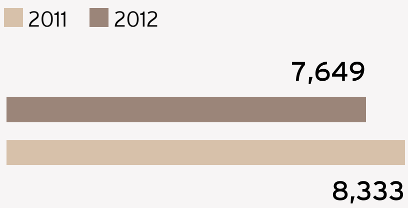

### Technical Profitability
(%)



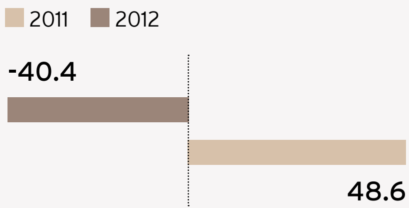

## AIRCRAFT

While premium production on aircraft insurance was worth TL 7,649 thousand, claims paid amounted to TL 2,268 thousand. Having posted a technical profit of TL 1,783 thousand in 2011, aircraft branch almost tripled this figure with a huge year-on increase of 198.1% and registered TL 5,315 thousand in 2012.

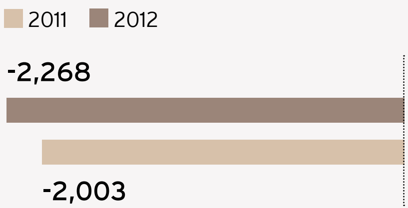
### Premium Production
(TL thousand)



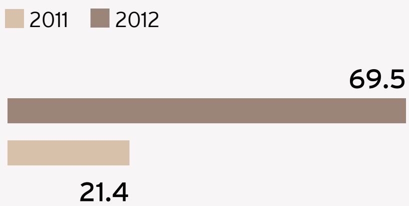

### Loss Premium Ratio
(%)




### Claims Paid
(TL thousand)



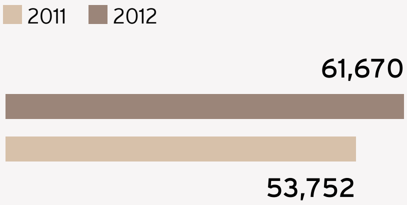

### Technical Profitability
(%)



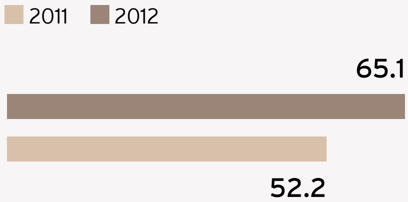
## WATERCRAFT

In 2012, watercraft insurance premium production grew by 14.7% year-on-year and reached TL 61,670 thousand. While claims paid in this branch were worth TL 22,079 thousand, technical profit was up 39.9% to TL 9,237 thousand.

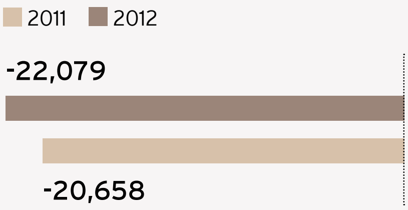
### Premium Production
(TL thousand)



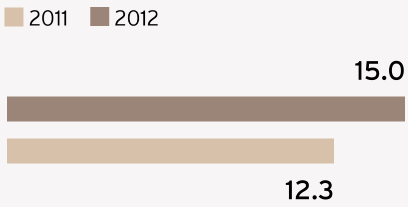

### Loss Premium Ratio
(%)




### Claims Paid
(TL thousand)



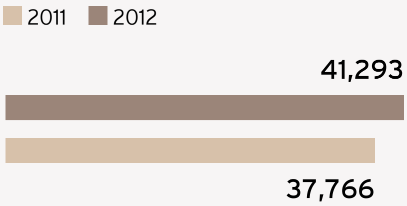

### Technical Profitability
(%)



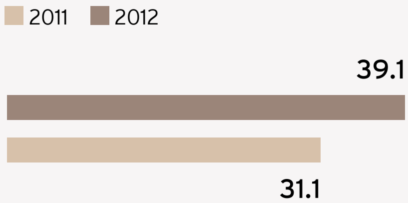

## MARINE

During 2012, premium production on marine branch rose by 9.3% to TL 41,293 thousand while claims paid amounted to TL 13,989 thousand. Technical profitability remained almost flat with TL 12,863 thousand in 2012.

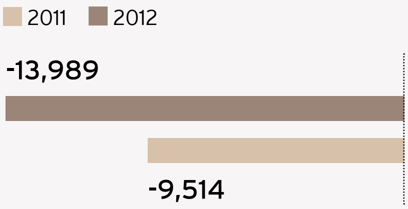
### Premium Production
(TL thousand)



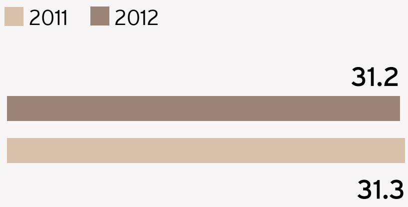

### Loss Premium Ratio
(%)




### Claims Paid
(TL thousand)




### Technical Profitability
(%)

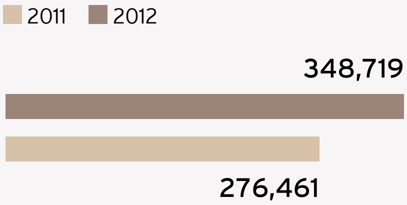


## FIRE AND NATURAL DISASTERS

Premium production on fire and natural disasters insurance policies was up 26.1% in 2012 and reached TL 348,719 thousand while claims paid amounted to TL 125,263 thousand. Loss premium ratio was 69.3% in 2012, as the branch posted a technical profit of TL 5,227 thousand.

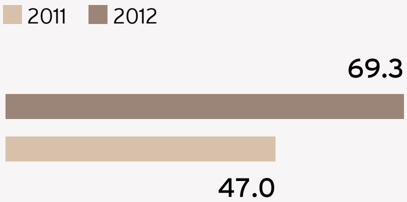
### Premium Production

(TL thousand)



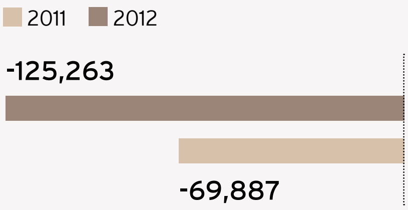

### Loss Premium Ratio

(%)




### Claims Paid

(TL thousand)




### Technical Profitability

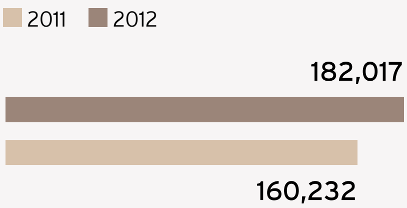
(%)


## GENERAL LOSSES

During 2012, premium production on general losses branch was up 13.6% to TL 182,017 thousand, while claims paid amounted to TL 80,626 thousand. The branch, which had booked a technical loss of TL -10,350 thousand in 2011, posted TL 19,921 thousand in technical profit in 2012.

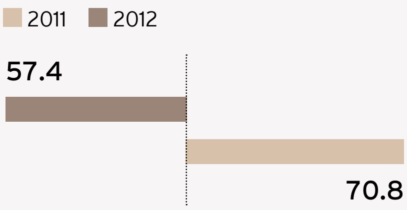
### Premium Production

(TL thousand)



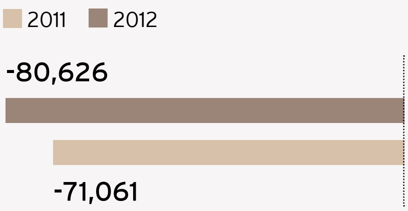

### Loss Premium Ratio

(%)



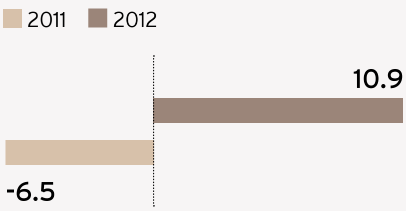

### Claims Paid

(TL thousand)




### Technical Profitability

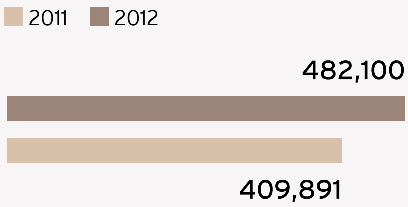
(%)



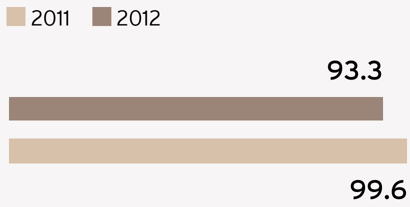
## MOTOR VEHICLES LIABILITY

Anadolu Sigorta's premium production on motor vehicles liability insurance went up by 17.6% in 2012 to TL 482,100 thousand, while claims paid amounted to TL 322,084 thousand. The motor vehicles liability branch booked a technical loss of TL -67,865 thousand in 2012.

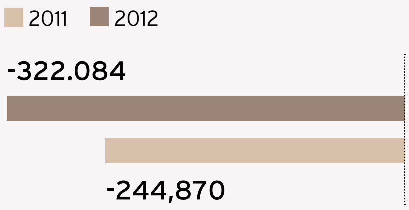
### Premium Production
(TL thousand)



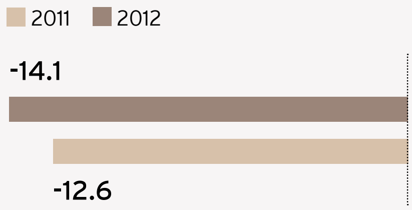

### Loss Premium Ratio
(%)




### Claims Paid
(TL thousand)



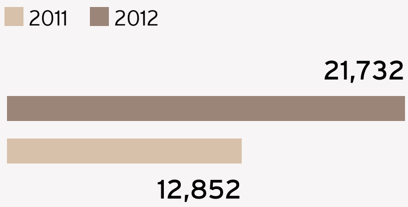

### Technical Profitability
(%)



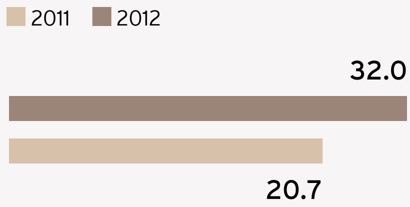

## AIRCRAFT LIABILITY

Premium production in aircraft liability branch surged 69.1% in 2012 and reached TL 21,732 thousand. The technical profit in this branch amounted to TL 1,739 thousand corresponding to a technical profitability of 8%.

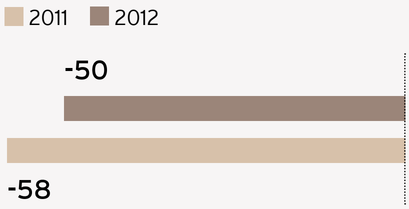
### Premium Production
(TL thousand)



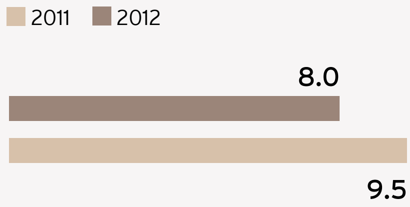

### Loss Premium Ratio
(%)




### Claims Paid
(TL thousand)



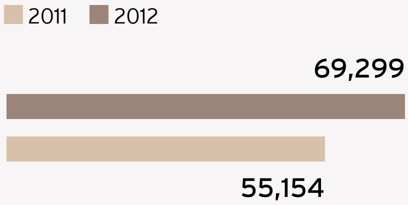

### Technical Profitability
(%)



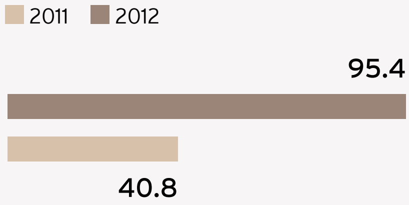
## GENERAL LIABILITY

During 2012, general liability insurance premium production grew 25.6% and amounted to TL 69,299 thousand. While claims paid rose from TL 11,567 thousand to TL 15,556 thousand, a technical profit of TL 893 thousand was registered.

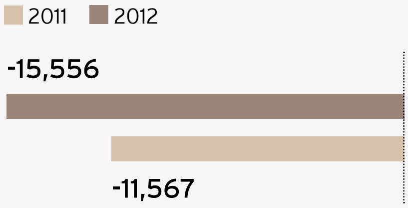
### Premium Production
(TL thousand)



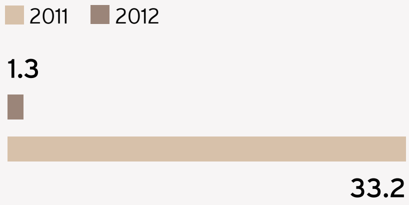

### Loss Premium Ratio
(%)




### Claims Paid
(TL thousand)



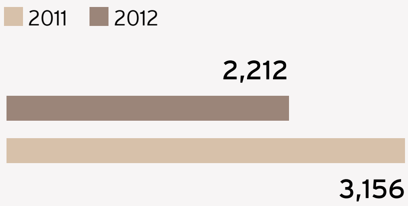

### Technical Profitability
(%)




## CREDIT

Premium production in the credit insurance branch amounted to TL 2,212 thousand in 2012, while claims paid were worth TL 4,338 thousand. The technical accounts showed a loss of TL -2,315 thousand.

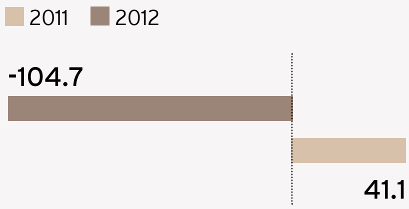
### Premium Production
(TL thousand)




### Loss Premium Ratio
(%)


### Claims Paid
(TL thousand)

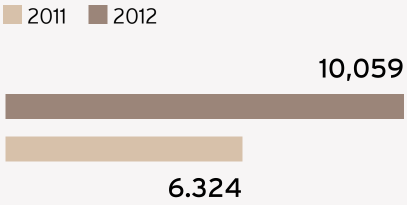

### Technical Profitability
(%)



## FINANCIAL LOSSES

Premium production on financial losses branch grew by 59.1% in 2012 and reached TL 10,059 thousand. The branch posted a technical loss of TL -1,083 thousand.

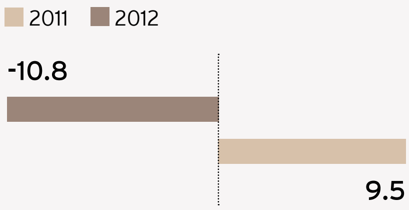
### Premium Production
(TL thousand)




### Loss Premium Ratio
(%)


### Claims Paid
(TL thousand)

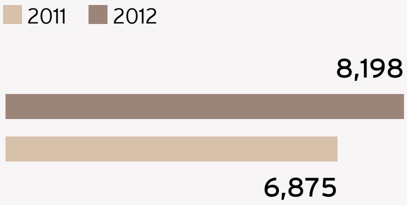

### Technical Profitability
(%)



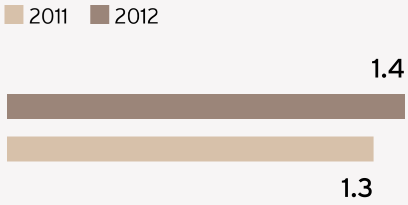

## LEGAL PROTECTION

Premium production in the legal protection branch was up 19.2% to TL 8,198 thousand in 2012. Legal protection branch attained an amazing profitability of 98.5% in 2012 for a technical profit of TL 8,073 thousand.

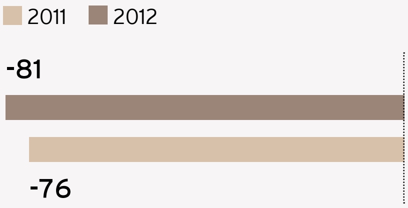
### Premium Production
(TL thousand)




### Loss Premium Ratio
(%)




### Claims Paid
(TL thousand)

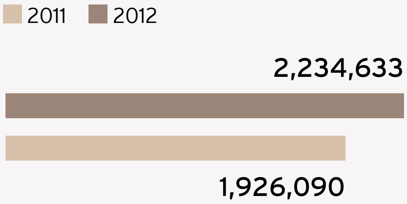



### Technical Profitability
(%)

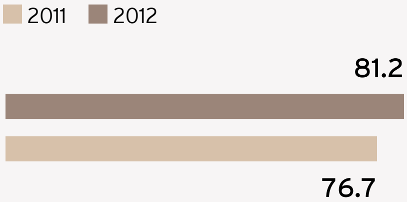
## TOTAL

Anadolu Sigorta's total premium production in 2012 was up 16% and reached TL 2,234,633 thousand, while claims paid amounted to TL 1,371,855 thousand. Overall technical profit went up from TL -10,068 thousand in 2011 to TL -72,500 thousand in 2012.

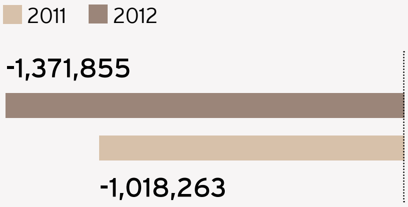
### Premium Production
(TL thousand)




### Loss Premium Ratio
(%)




### Claims Paid
(TL thousand)




### Technical Profitability
(%)

## Investment Income

Investment income went up 2.7% to reach TL 154,411 thousand in 2012.

The Company, in 2012, derived TL 69,676 thousand as interest income on time deposits, TL 9,729 thousand from the sale of government securities and private sector bonds, and TL 7,196 thousand in dividend income from equities.

A total of TL 29,123 thousand was booked as income on sales of financial investments during the reporting period. TL 6,242 thousand of this was from the sale of bills and bonds, while TL 11,765 thousand was from the sale of equities and TL 9,874 thousand from the sale of mutual funds. The portion of TL 1,242 thousand remaining outside these amounts consists of income generated by the sale of financial assets subject to repo trading.

The "financial investments valuation account", which consists of valuation income derived from all equities, bills and bonds, mutual fund shares, repo trading, and fixed-term deposits, showed TL 17,546 thousand.

The Company booked currency translation gains in the amount of TL 11,313 thousand during the reporting period. Income from Anadolu Sigorta's equity participations stood at TL 8,000 thousand.

| Investment Income (TL thousand) | 2012 | 2011 | Change (%) |
|---|---|---|---|
| Income from Financial Investments | 86,601 | 76,519 | 13.2 |
| Revenues from the Sales of Financial Investments | 29,123 | 16,309 | 78.6 |
| Valuation of Financial Investments | 17,546 | 6,238 | 181.3 |
| FX Gains | 11,313 | 29,253 | -61.3 |
| Dividend from Affiliates | 8,000 | 18,000 | -55.6 |
| Income from Real Estate | 1,510 | 1,415 | 6.7 |
| Income from Derivatives | 293 | 2,484 | -88.2 |
| Other Investments | 25 | 62 | -59.7 |
| **Total** | **154,411** | **150,280** | **2.7** |

## Investment Expenses

Anadolu Sigorta's investment expenses increased 9.1% to TL 154,270 thousand in 20112. The biggest component of this figure consisted of TL 119,051 thousand in investment income that was transferred to the technical division. As required by the Undersecretariat of Treasury Circular on the Procedures and Principles of Keys Used in Financial Statements that went into effect on 1 January 2008, investment income on assets covering technical reserves has been transferred to the technical division. The investment income transferred to the technical division in line with the relevant transfer method was up by 50% year-to-year and reached TL 119,051 thousand.

| Investment Expenses (TL thousand) | 2012 | 2011 | Change (%) |
|---|---|---|---|
| Investment Management Expenses (incl. interests) | -195 | - | - |
| Devaluation of Investments | -4,837 | -19,968 | -75.8 |
| Loss from the Sales of Financial Investments | -5,218 | -9,119 | -42.8 |
| Investment Expenses Transferred to the Technical Division | -119,051 | -79,355 | 50.0 |
| Loss from Derivative Products | -311 | -9,929 | -96.9 |
| FX Losses | -16,218 | -15,152 | 7.0 |
| Depreciation Expenses | -8,440 | -7,920 | 6.6 |
| **Total** | **-154,270** | **-141,443** | **9.1** |

### Revenues, Income, Expenses and Losses from Other Operations

The "revenues, income, expenses and losses from other operations" account showed a year-on-year increase of 58.1% and stood at TL 8,378 thousand. A major contributor to this account balance stems from a TL -8,335 thousand charge against the "reserves" account, while the deferred tax income account created an income effect of TL 17,012 thousand.

| Revenues, Income, Expenses and Losses from Other Operations (TL thousand) | 2012 | 2011 | Change (%) |
|---|---|---|---|
| Provisions | -8,335 | -7,537 | 10.6 |
| Rediscounts | -577 | 3,284 | -117.6 |
| Compulsory Earthquake Insurance | 17,012 | 6,368 | 167.1 |
| Deferred Tax Income | 645 | 3,400 | -81.0 |
| Deferred Taxation | -367 | -215 | 71.5 |
| **Total** | **8,378** | **5,300** | **58.1** |

### Operating Results

Key ratios concerning the Company's performance are shown in the chart to the right along with prior-year results for comparison.

| | 2012 | 2011 |
|---|---|---|
| Technical Profitability Ratio | -3.2% | -0.5% |
| Net Loss-Premium Ratio | 81.2% | 76.7% |
| Return on Equity | -8.5% | 0.6% |
| Return on Assets | -2.6% | 0.2% |

| (TL thousand) | 2012 | 2011 | Change (%) |
|---|---|---|---|
| Technical Division Balance | -72,500 | -10,068 | 620.1 |
| Investment Income | 154,411 | 150,280 | 2.7 |
| Investment Expenses | -154,270 | -141,443 | 9.1 |
| Revenues, Income, Expenses and Losses from Other Operations | 8,378 | 5,300 | 58.1 |
| **Total** | **-63,981** | **4,069** | **-1,672.5** |
| **Gross Income/Loss** | **-63,981** | **4,069** | **-1,672.5** |
| Tax Provisions | - | - | - |
| **Net Income/Loss** | **-63,981** | **4,069** | **-1,672.5** |

The insurance sector is expected to sustain its growth in 2013 while the goal of Anadolu Sigorta will be to secure increased production in real terms and attain a sustainable profit, by further leveraging the concepts of quality service, leadership, innovation and customer focus. Technical results will be monitored closely, targeting to achieve technical profitability through improving loss premium ratios particularly in unprofitable branches. In striving to achieve its strategic goals, the Company aims to further increase its brand equity while continuing to offer its services to the policyholders with strict adherence to its quality service concept as it has always done.

## ASSESSMENT OF THE COMPANY CAPITAL AND COMMENTS

The key considerations that the companies in the insurance sector will face in the years ahead will be the satisfaction of potential capital requirements that might arise in line with growth, and due management of the capital. When planning for growth and profitability targets, Anadolu Sigorta observes capital needs as well. Attention is paid to ensure that the company capital is at adequate level, taking into consideration the regulatory requirements. Information on capital adequacy is presented in the relevant section of the notes to the financial statements.

# PROFIT DISTRIBUTION POLICY AND PROPOSAL

## PROFIT DISTRIBUTION POLICY

The articles of association set the principle of distributing first dividends in the ratio and amount as determined by the Capital Markets Board (CMB) from out of the attributable profit.

The dividend distribution proposals presented by the Board of Directors for the approval of the General Assembly are based on a dividend distribution policy that takes into consideration:

- preserving the delicate balance between the expectations of our Shareholders and the Company's need to grow,
- the profitability of the Company.

The profit distribution policy espoused by the Board of Directors is based on the principle of proposing to the General Assembly the distribution of at least 30% of the attributable profit as bonus shares or in cash.

No shares are privileged in terms of getting share from the profit.

No founder's bonus certificates are given, nor are dividends paid to the Board Directors.

Pursuant to the articles of association, our employees are paid dividends up to three times of their salaries and maximum 3% of the amount remaining after the first dividend is set aside.

Care is paid to effect the dividend payments as soon as possible, and in any case, until no later than the end of the fifth month, as stipulated by the applicable legislation.

The articles of association contain no provisions stipulating payment of advances on dividends.

## PROFIT DISTRIBUTION PROPOSAL

The Company's Profit Distribution Policy has been publicly disclosed in the previous years; it also takes place within the Corporate Governance Principles Compliance report in the 2012 annual report.

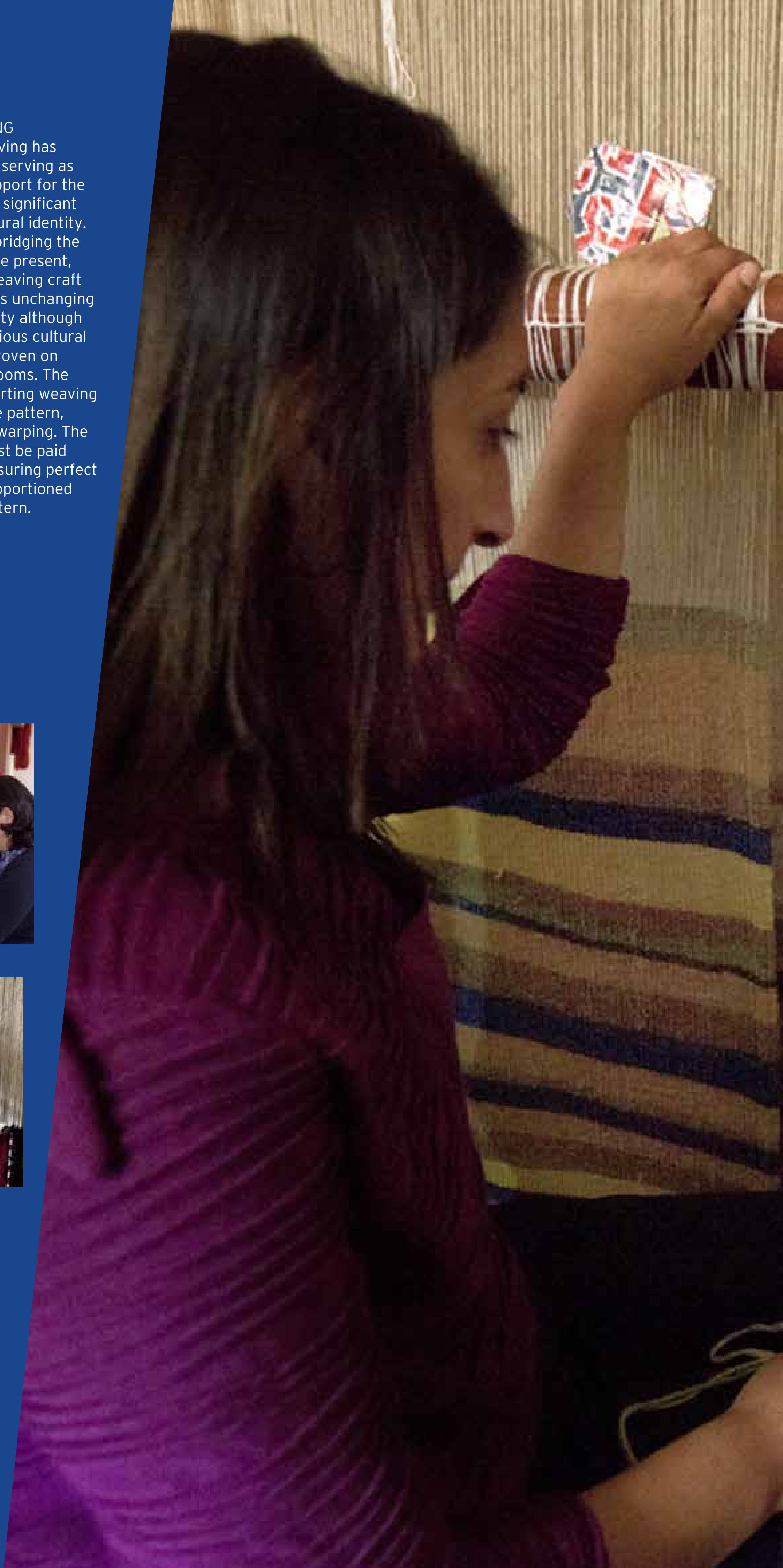
Our Company booked a loss for the current period of TL 63,981,132 on its 2012 operations. However, in the Capital Markets Board of Turkey (CMB) meeting of 27 January 2010, it has been resolved that companies obliged to draw up consolidated financial statements should compute the net distributable profit taking into account the net profit for the period stated in the consolidated financial statements that will be drawn up and publicly disclosed as per the Communiqué Serial: XI No: 29 on Principles of Financial Reporting in the Capital Market, provided that the net distributable profit can be covered from the sources reflected in their legal records. After consolidation of Anadolu Hayat Emeklilik A.Ş., a consolidated net loss of TL 55,790,717 arises. Accordingly, it is proposed that no dividends be distributed.

Anadolu Anonim Türk Sigorta Şirketi 2011 Profit Distribution Table (TL)

| | | |
|---|---|---|
| 1. Paid-in / Issued Capital | | 500,000,000 |
| 2. Total Legal Reserves (according to legal records) | | 30,638,111 |
| If there are privileges for distribution of profits according to the Articles of association, information on such privileges | | None |
| | Based on CMB | Based on Legal Records |
| 3. Profit for the Period (*) | -55,790,717 | -63,981,432 |
| 4. Taxes Payable (-) | - | - |
| 5. Net Profit for the Period (=) | - | - |
| 6. Losses in Prior Years (-) | - | - |
| 7. First Legal Reserves (-) | - | - |
| 8. NET DISTRIBUTABLE PROFIT FOR THE PERIOD (=) | - | - |
| 9. Donations during the Year (+) | - | |
| 10. Net Distributable Profit for the Period Including Donations, Based on Which First Dividend will be Computed | - | |
| 11. First Dividend to Shareholders | - | |
| - Cash | - | |
| - Bonus Shares | - | |
| - Total | - | |
| 12. Dividends Distributed to Owners of Privileged Shares | - | |
| 13. Dividends Distributed to Board Members, Employees, etc, | - | |
| 14. Dividends Distributed to Owners of Redeemed Shares | - | |
| 15. Second Dividend to Shareholders | - | |
| 16. Second Legal Reserves | - | |
| 17. Statutory Reserves | - | - |
| 18. Special Reserves | - | - |
| 19. EXTRAORDINARY RESERVES | - | - |

# SADDLEBAG

SADDLEBAG WEAVING
While saddlebag weaving has long been a vocation serving as a major means of support for the rural area, it is also a significant reflection of our cultural identity. Playing a big role in bridging the country's past and the present, saddlebag and rug weaving craft has ever preserved its unchanging position for our society although it has penetrated various cultural elements. Rugs are woven on exclusively wooden looms. The initial step before starting weaving is the selection of the pattern, which is followed by warping. The crucial point that must be paid care in weaving is ensuring perfect selvages and well-proportioned placement of the pattern.



# RISKS AND AN ASSESSMENT BY THE GOVERNING BODY

## RISK MANAGEMENT POLICY

The Company's risk policies and related implementation procedures include written standards devised and enforced by the board of directors and implemented by senior management. Determined and enforced by the Board of Directors in parallel with international practices on the basis of insurance underwriting risk, credit risk, market risk, operational risk and the risk of use of the Company's services for laundering proceeds from crime and for financing terrorism, these are general standards that define the organization and scope of the risk management function, risk measurement procedures, the duties and responsibilities of the Company's Risk Management Committee, as well as the procedures for determining risk limits, actions to be taken in possible limit violations, and the compulsory approvals and confirmations that are required to be given in various cases and circumstances.

Besides insurance underwriting, credit, market and operational risks, other risks can result from the reciprocal and successive interaction of these risks. Therefore, an integrated consideration should be adopted for all risk elements stemming from assets and liabilities positions. The Company's basic strategy with respect to the distribution of long-term assets and liabilities is to ensure consistency between assets and liabilities at optimum liquidity risk level so as to support the objective of maximizing returns. Accordingly, utmost importance is given to the following points:

- The basic objective of the Company's activity in the money and capital markets is to generate maximum possible return at a specified risk level. The priorities in asset investments are, in order of precedence, safe investment, liquidity and return.
- When investing assets, the Company takes into account market and liquidity risks, portfolio concentration risk, payables in high amounts such as known or foreseeable advance taxes, corporate taxes, reinsurer payments and claims payments, as well as receivables from insurance activity.
- Through scenario analyses and stress tests, the assets portfolio is exposed to various shocks and tested with respect to interest rates, exchange rates and share certificate prices. These tests are conducted at quarterly intervals at a minimum.
- Utmost attention is paid to maintaining a cash position in foreign currency for potential catastrophic risks equivalent to the lower limit of excess of loss agreements, as well as known liabilities for any given period.

The Board of Directors, taking into account long-term strategies, equity capabilities, returns to be derived and general economic expectations, sets the Company's risk tolerance, which is then expressed in terms of risk limits. In line with the procedures set in the Policies and in view of the market conditions in the relevant period, the Risk Management and Internal Control Department reports violations of limits submitted to the CEO and the Board of Directors.

Senior Management is responsible for implementation of Risk Management Policies. For purposes of ensuring compliance with policies, Senior Management means the CEO, Deputy Chief Executive Officers, and relevant Unit Managers and Regional Managers. On the other hand, all authorized employees performing the transactions regarded as a part of risk management processes are individually responsible for the accuracy and reliability of all kinds of data and information they provide in relation to their respective jobs within the process, which form the basis of the making of decisions.

### 1- Insurance Underwriting Risk Policy

Insurance underwriting risk is defined as a risk that might arise from failure to correctly and effectively implement the insurance technique within the process of turning coverage provision for natural risks which are not known certainly if they will occur and for risks which are known for sure to occur but are unknown time-wise into sustainable commercial earnings. The scope of Insurance Underwriting Risk Policies consists of the conditions and price of the coverage to be provided for the risk; the principles applied in determining which of the coverages provided will be ceded up to what amounts and to whom in the case of risks decided to be transferred; conducting effective monitoring of risk portfolio loss frequency so as to allow formulation of fitting reinsurance strategies at sufficient frequency, and related monitoring and reporting system.

Management of insurance underwriting risk is based on the principle of forming the risk portfolio with risks that represent a low potential to cause loss. In order to avoid poor risk selection and incorrect pricing of insurance policies and to create accurate reinsurance policies, effective monitoring is carried out on loss frequency and loss severity of the risk portfolio. The risk portfolio is separately overseen on the basis of agents, industry, branches, regions, brands, models, tariffs, products, customers and other parameters.

A comprehensive insurance underwriting risk reporting system is used to ensure measurement of loss performance, oversee compliance with applicable legislation and ensure reporting on the effectiveness of insurance underwriting risk controls. The risk of the portfolio is regularly reported by executive departments and the Risk Management and Internal Control Department to the CEO and the Board of Directors.

### 2- Credit Risk Policy

Credit risk means the possibility of the Company's sustaining loss due to failure on the part of policyholders, agents, reinsurers, fronting companies, coinsurers, and other parties to partially or totally fulfill their obligations towards the Company. It also indicates to the loss of market capitalization caused by the deterioration in the financial standing of companies with which there are subsidiary or affiliate relationships. The Credit Risk Policy sets out the procedures and responsibilities related to the management, control and monitoring of credit risk, as well as matters in relation to credit risk limits.

Early identification and definition of issues are of the essence for effective management of credit risk. For this purpose early warning signals are determined; these are indicators pointing at cases that will adversely influence the credit risk and lead to a credit risk that is above the Company's risk tolerance. For insurance brokers, these are declined collection ratios, reduced production performances, slackened discipline in conforming to Company guidelines, and other data from intelligence. For Reinsurance companies and counterparties, these cover all kinds of data and information obtained in relation to negative ratings and developments. It is the duty and responsibility of executive units to obtain data and information in relation to credit risk. All kinds of information obtained are urgently considered within the frame of decision-making, monitoring, reporting and auditing processes.

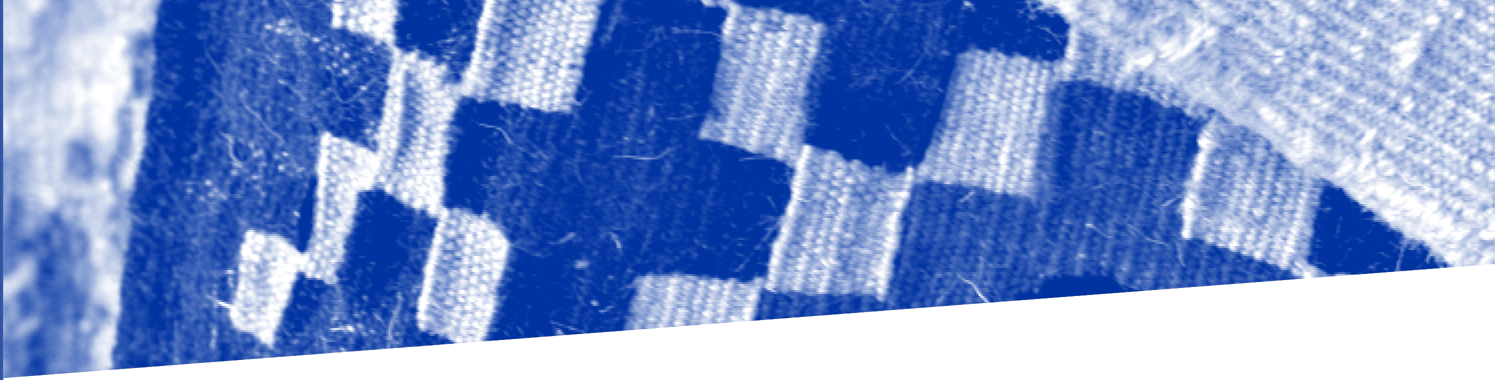
A credit risk scoring system used, which has the capability to be made use of in the management of credit risk and decision-making, to enable monitoring risk on the basis of counterparties, to take notice of expected and unexpected losses, and to allow for making the decisions based not only on the return derived or anticipated to be derived from the counterparty at any time, but also on the risk underwritten. The risks of counterparties are regularly reported by the Risk Management and Internal Control Department to the CEO and the Board of Directors. The Risk Management and Internal Control Department is also responsible for undertaking daily follow-up of regional, sectoral and market trends that have an actual or possible impact on the Company's credit risk, and for reporting the results to the CEO and the Board of Directors.

### 3- Market Risk Policy

Market Risk means the risk of loss in the value of the Company's placements in financial borrowing instruments whose return is linked to interest rate; stock, other investment securities, all FX or FX-indexed assets and liabilities in or off the balance sheet, derivative agreements based on the said instruments, which loss might result from the volatilities in interest rates, stock prices and exchange rates.

The basic and ultimate purpose of the Company's activities in money and capital markets is to generate returns. The basis of Market Risk policies is to measure, report and keep under control the risk that the Company is exposed to by reason of such activity. The top priority is to ensure that the Company's Market Risk exposure is within the limits stipulated by applicable legislation and is compliant with the company's risk appetite. In market risk management, risk appetite is expressed in terms of market risk limits assigned to the executive fund management unit and the contracted asset management companies. Market risk limits are categorized into two groups: limits set employing the value at risk method, and limits determined based on the ratio of each group of investment securities to the total portfolio and shareholders' equity. The Risk Management and Internal Control Department and executive fund management unit closely and constantly monitor limit violations. In case limits are exceeded, the amount at which a limit is exceeded and its reasons are reported to the CEO and the Board of Directors, along with the assessments of the executive body. If limit violations are above the ratios or durations set by the Board of Directors, necessary action is determined by the Board of Directors.

Market risk is calculated employing internationally accepted statistical methods. Since these calculations cover risk prediction for the following days, the accuracy of predictions are compared subsequently with actual values and monitored on a daily basis. On the other hand, the portfolio is tested under different scenarios for determining the effects of occurrences which pose a low probability in terms of occurrence, but big volume in terms of loss. The assessments,



which include the possible mismatches among types and maturities of the Company's assets and liabilities, are regularly reported in detail to the CEO and the Board of Directors.

### 4- Operational Risk Policy

Operational risk is defined as any risk other than absolute insurance underwriting, credit and market risks which might occur in the organization, business continuity, insufficient or inoperative business processes, technology, human resource, underperformance by individuals, administrative mistakes, unfortunate events, misconduct, accident and fraud, systems or external factors, legislation, management and business environment, and which might cause physical or reputational loss to the Company.

Limits are introduced for potential operational risks that might arise during the activities based on the "Company Risk Catalogue," which is the basic document used in defining and classifying all risks that may be faced with. The Risk Catalogue is updated in parallel with the changing conditions. "Self-Assessment Methodology" is used in the identification of operational risks. In this method, the risks in relation to activities conducted are exposed with the involvement of the personnel performing the job.

Qualitative and quantitative methods are used jointly in the measurement and evaluation of operational risk. The measurement process uses data obtained from "impact - likelihood analysis", "control culture profile surveys" and internal and external "loss database." When managing operational risk, efforts are spent to develop controls to eliminate or mitigate the possibility of sustaining loss due to risks that the Company may be exposed to in relation to its activities. Effectiveness and adequacy of existing or subsequently developed controls, and the implementation of action plans adopted in this regard are evaluated in coordination with the Risk Management and Internal Control Department and the Board of Inspectors. The Risk Management and Internal Control Department monitors all operational risks that the Company may be exposed to during the course of its activities, and regularly reports on the same to the CEO and the Board of Directors.

### 5- Policy for Combating the Legalization (Laundering) of Proceeds from Crime and Financing of Terrorism

This policy is intended to define, rate, monitor, assess and mitigate the risks the Company is exposed to with respect to the use of the insurance service offered by the Company in laundering proceeds from crime or financing of terrorism. The ultimate goal can be achieved by effectively monitoring and supervising customers and transactions in full compliance with the applicable legislation and regulations.

The overall scope of the Policy covers the activities centrally executed for defining, measuring, monitoring, controlling and reporting the risks that the Company is exposed to for reasons of the use of the insurance service offered by the Company in laundering proceeds from crime or in financing of terrorism, or the Company's failure to fully comply with the liabilities imposed by the Law no 5549 on Prevention of Laundering Proceeds from Crime and by related regulations and communiqués.

The basic strategy of the Company to achieve the ultimate goal is to carefully plan, conduct and manage risk management activities independently, impartially, purposefully, productively and efficiently, employing a risk-focused approach and in line with applicable legislation and internationally accepted principles and standards. The basic principle in achieving this goal is to employ the most advanced tools and methods that are available and possible to be used. Findings from risk management, monitoring and control activities are regularly reported to the Board of Directors by the Board Director who is delegated by the Board of Directors in respect of this matter.

## Risk Management Activities and Risk Assessment

The Company's risk exposure is monitored, assessed and controlled individually under the categories of insurance underwriting risk, credit risk, market risk and operational risk. The risk exposure arising out of the use of the Company's insurance services for laundering proceeds from crime or for financing terrorism, or out of failure to achieve full compliance with the obligations imposed by the Law no 5549 on Prevention of Laundering Proceeds from Crime and by related regulations and communiqués is addressed independently from other types of risks as per the applicable legislation.

The assessment of the Company's risk exposure with respect to the magnitude of their potential impact led to the conclusion that the effects of developments in global and national economy upon the technical and financial performance, the potential earthquake in İstanbul, and low technical profitability are critical.

It is well known that macroeconomic risks and financial stability risks mostly result from global developments in outward-oriented economies with a broad current deficit such as Turkey. The key factors that fuelled macrofinancial risks particularly in recent years have been the sudden changes in risk perceptions in conjunction with the weak global economic outlook and the high volatility in capital flows. The sustained and even further strengthened stagnation tendencies in the global economy are anticipated to result in continued low interest rate policies by central banks, which in turn will bring the near-zero policy rates of developed economies to effectually zero, and push the interest rates further below their current levels in emerging countries. The loose stance in monetary policies is expected to support the global liquidity conditions and the capital inflow to emerging countries. It is considered that the current economic conjuncture and the recent implementations by the Central Bank of Turkey (CBRT) are of a nature to back the economic activity across the country, and there are no major systemic risk elements that can already be foreseen for the insurance sector, which is, by nature, prone to be affected significantly by the circumstances prevailing in the economy.

The compensation amounts that might result from earthquakes and other catastrophe risks that exceed the upper limits of various existing agreements are of a nature that might lead the Company to suffer losses of a magnitude that cannot be made up for in a typical operating year. Modeling software is used to determine the magnitude of an earthquake in İstanbul and the potential damages that would arise therefrom, and the potential margin of error incorporated in such software is also taken into consideration when determining the final protection level. Scenario analysis is employed to establish some uncertainties that cannot be calculated by modeling programs, such as personal injury, motor own damage claims, tsunami, post-earthquake fire, changes in our protection level due to volatile exchange rates, inflation, high level coverage in conjunction with loss of profit, and a portfolio that expands during the course of the year, whereas a certain safety margin is allowed for some other uncertainties. It is considered that the total amount of protection the Company obtains for catastrophe risks is sufficient for a 1000-year earthquake, which is the minimum model according to the Reinsurance Strategy.

Although it is not deemed vital when a potential earthquake in İstanbul is considered individually, a Contingency Action and Funding Plan and a Business Continuity Plan have been formulated for the management of potential market, credit and operational risks that might be triggered simultaneously by such an earthquake. The operability of these plans is tested at regular intervals.

Low operating profitability is at the top of the risk elements that are critical for the Company, which is the case also for all companies in the sector that are engaged in non-life branches. This predicament that results from excessive price competition and prevents accumulation of capital is anticipated to disappear gradually, in parallel with the future depth to be achieved by the Turkish Insurance Industry, which constantly grows other than in periods of crises. Another expectation is that the problem of technical profitability will be mitigated significantly by the contribution to be lent to operational efficiency by Company-wide projects conducted within the frame of a comprehensive transformation program.

## ACTIVITIES OF THE COMMITTEE OF EARLY DETECTION OF RISK

Pursuant to the provisions of the Communiqué Serial: IV No: 56 on the Determination and Implementation of Corporate Governance Principles enforced upon its publication in the Official Gazette issue 28158 dated 30 December 2011, it has been decided to set up a Committee of Early Detection of Risk as of 27 February 2012. The committee will be responsible for carrying out all relevant works and efforts for the early detection of risks that might endanger the existence, progress and survival of the Company, implementation of measures and remedies against identified risks, and management of the risk.

The committee has begun making an assessment of the situation in its reports submitted on a bimonthly basis to the Board of Directors since June 2012; the said report is also shared with the statutory auditor.

# OTHER MATTERS AND FINANCIAL STATEMENTS

## ANNUAL REPORT COMPLIANCE OPINION

To the Shareholders of Anadolu Anonim Türk Sigorta Şirketi,

We have audited the accuracy and the consistency of the financial information in the annual report of Anadolu Anonim Türk Sigorta Şirketi ("the Company") with the audited financial statements as of 31 December 2012. The annual report is the responsibility of the Company's management. Our responsibility, as independent auditors, is to express an opinion on the annual report based on the compliance of financial information provided in the annual report with the audited financial statements and explanatory notes.

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

In our opinion, the financial information provided in the accompanying annual report prepared in accordance with the Communiqué is in compliance with the audited financial statements and explanatory notes of Anadolu Anonim Türk Sigorta Şirketi, in all material respects, as at 31 December 2012.

Istanbul,
28 February 2013

Akis Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi

Murat Alsan
Certified Public Accountant, Partner

# AN ASSESSMENT OF THE BOARD DIRECTORS BY THE CORPORATE GOVERNANCE COMMITTEE

Apart from the Chairman of the Board of Directors and the CEO, the Board of Directors consists of non-executive members.

Chairman of the Board and CEO functions are carried out by different individuals.

Taking into consideration that there are no non-corporate ultimate shareholders with a controlling interest in our Company, it is thought that the Board Directors naturally possess the advantage to act independently and therefore, to be impartial in their decisions, upholding the interests of our Company and stakeholders above everything else.

The Board of Directors meets regularly and at least monthly as pre-scheduled, and at any time as and when deemed necessary. The Board of Directors met 12 times in 2012. The Board Directors, in principle, attend every meeting.

Care is paid to determine the Board meeting date during the immediately preceding meeting, followed by written invitation. It is intended to set the meeting date so as to allow all Directors to participate, and save for unforeseeable exceptional events, the Board meetings are held with the participation of all Directors.

The draft Board meeting agenda is prepared by the CEO and finalized in line with the proposals of the Chairman and the Board Directors.

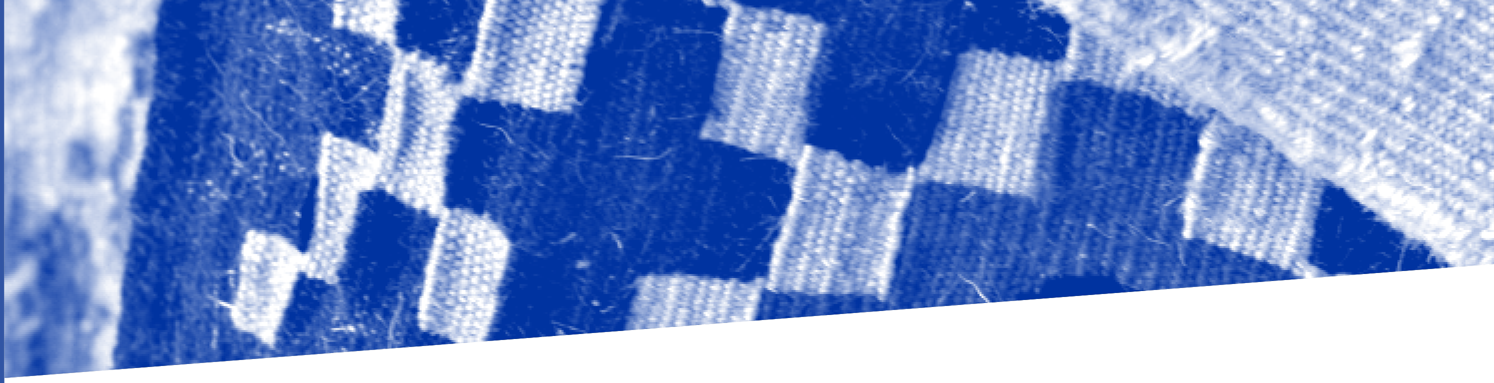
Utmost care is paid to ensure that the information and documents about the topics covered in the Board meeting agenda are made available for the examination of the Directors at least seven days in advance, and when such timing cannot be met, efforts are spent to ensure equal flow of information to the Board Directors.

Each Director is entitled to one vote and none has weighted vote or affirmative/negative vetoing rights.

Pursuant to the articles of association, the Board of Directors convenes on the basis of absolute majority and makes decisions with the absolute majority of Directors present in the meeting.

Pursuant to the articles of association, our Board of Directors is authorized on matters of importance such as;

- Establishment and abolition of agencies, branches and representation offices, and determination of the terms and conditions applicable therefor,
- Being a proxy, leading insurer, representative or agency of other insurance and reinsurance companies,
- Setting the dates for commencing and terminating activities in various insurance branches,
- Determination of the essential conditions of insurance and reinsurance agreements,
- Execution and termination of all kinds of reinsurance agreements,
- Entering into financial and industrial undertakings and initiatives, founding companies in relation to insurance business, participating in companies that are or will be established for this purpose,
- Buying and selling immovables, and constructing buildings.



The Board of Directors fulfills its responsibilities remaining outside the scope of its basic functions taking into consideration the opinions and recommendations of executive bodies and committees. Such responsibilities include, but are not limited to the following:

- Approving the Company's annual budget and business plans,
- Preparing the Company's annual reports and finalizing the same to be presented to the General Assembly,
- Ensuring that the General Assemblies are held in compliance with the legislation and the Company's articles of association,
- Taking necessary action in relation to General Assembly decisions,
- Overseeing the use of substantial amounts that are in excess of 10% of the total assets in the Company's most recent balance sheet,
- Approving the executives' career plans and rewarding provided to them,
- Determining the Company's policies about Shareholders, stakeholders and Public Relations,
- Determining the Company's disclosure policy,
- Setting the codes of ethics for the Company and its employees,
- Establishing the operating principles of committees; ensuring their efficient and productive functioning,
- Taking necessary action so as to ensure the Company's organizational structure responds to current circumstances,
- Examining the activities of former boards of directors.

The Board of Directors consists of nine Directors, which number enables efficient organization of the activities of the Board. Two independent Directors serve on the Company's Board of Directors.

Although there are no set rules on non-independent Directors' undertaking other duties outside the Company, the Directors do not have any other duties apart from their natural duties in the entities they represent and from those in the establishments owned by the entities they represent. Yet, Board Directors devote sufficient amount of time for Company affairs, and exercise their powers prudently and within the frame of good faith, possessing all necessary knowledge to ensure full performance of the duty.

Past experiences, and outside positions held, if any, of the independent Board Directors are disclosed in their résumés and presented on our website and in our annual report.

When fulfilling its decision-making function, the Board of Directors acts on the basic consideration of:

- Maximizing the fair value of the Company,
- Pursuing the Company operations so as to ensure long-term and stable earnings for our Shareholders,
- Maintaining the delicate balance between the Shareholders and the Company's need to grow.

In the formation of the Board of Directors, care is given to;

- Ensure that the nominees are present in the meeting at the time of election to the seats on the Board of Directors,
- Inform the Shareholders about the nominees,
- Allow Shareholders to ask questions to the nominees,
- Inform the Shareholders, during the General Assemblies, on other companies on the boards of which Director nominees serve and on the compliance or non-compliance to internal regulations set exclusively on this topic.

Directors just starting to serve on the Board are offered an orientation program covering the following at a minimum:

- Introduction with our executives and visits to the Company's units,
- The CVs and performance assessments of our executives,
- Strategic goals, current status and issues of the Company,
- Market share, financial structure and performance indicators of the Company.

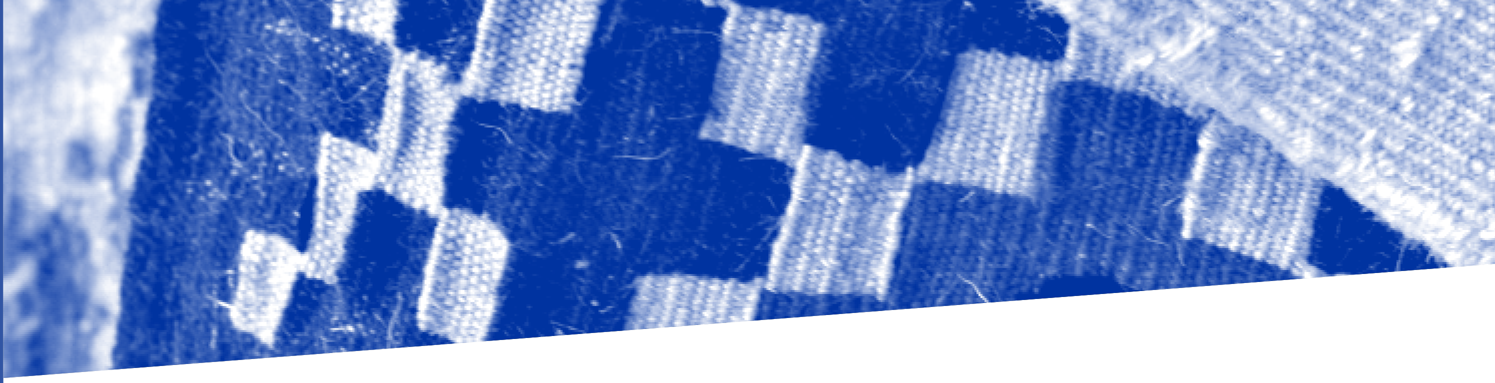
Pursuant to legislation, general managers of insurance companies must have graduated from a four-year university minimum, and have at least ten years experience in any one of insurance, banking, economy, business management, accounting, law, finance, mathematics, statistics or engineering fields. More than half of the Board Directors must have graduated from a four-year university minimum, and have knowledge and experience in at least one of the fields mentioned above.

- The Directors possess these qualifications and have;
- Satisfactory knowledge and skills in banking and insurance business,
- The skill to read and analyze financial statements and reports,
- Basic knowledge about the legal regulations governing our Company, and about general market circumstances,
- The will and the opportunity to regularly attend the Board meetings for the period of time for which they are elected to serve.

The Board of Directors adopted the necessary measures for preventing undisclosed information and/or trade secrets from being disseminated out of the Company.

Hasan Hulki Yalçın
Board Director and Member of
the Corporate Governance Committee

Prof. Dr. Turkay Berksoy
Board Director and Head of
the Corporate Governance Committee



## CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

### 1. STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

Our Company firmly believes that Corporate Governance Principles are as critical as financial performance, and that putting these principles into practice bears utmost importance both for the development of national and international capital markets and for the best interests of our Company.

Our Company implements the compulsory principles as specified in the Communiqué Serial: IV No. 56 on the Determination and Implementation of Corporate Governance Principles.

Within this scope, our articles of incorporation do not contain any provisions stipulating:

- Exercise of the request for appointment of a special auditor as an individual right,
- Distribution of advances on dividends,
- Participation of stakeholders in the management of the Company,
- Expansion of the scope of minority rights beyond the provisions of applicable legislation
- Adoption of resolutions concerning demerger or share exchange that would result in a change in the Company's capital and management structure and in its assets, buying/selling, letting or renting tangible/intangible assets or making donations or grants in substantial amounts, and providing guarantee such as suretyship, mortgage in favor of third parties.

Minority rights are not represented in our Board of Directors.

Principles of exceptional nature that are not yet in practice have not led to a conflict of interest among the stakeholders to date.

At the Annual General Assembly Meeting convened on 29 March 2012 within the frame of Corporate Governance Principles, it has been agreed to amend Article 44 of the Company's articles of incorporation and to supplement Article 68 to the same, and the said articles have been registered in the Turkish Trade Registry Gazette issue 8050 dated 17 April 2012.

The assessment and determinations of the level of compliance achieved by our Company to the corporate governance principles, and opinions regarding the scope of the compliance level and ideas on its qualitative improvement are presented below.

## PART I - SHAREHOLDERS

### 2. SHAREHOLDER RELATIONS UNIT

A "Shareholder Relations Unit" has been set up in the Company in 2005. Fatih Gören, Murat Tetik, Barış Hüseyin Şafak and Cem Çözer have been serving in this unit.

The head of the unit is Fatih Gören, Deputy Chief Executive.

Contact information for our employees working in this unit is as follows.

| Name & Surname | Title | Phone No | E-mail Address |
|---|---|---|---|
| Fatih Gören | Deputy Chief Executive | 90 212 350 00 55 | fgoren@anadolusigorta.com.tr |
| Murat Tetik | Manager | 90 212 350 02 55 | mtetik@anadolusigorta.com.tr |
| Barış H. Şafak | Supervisor | 90 212 350 02 54 | bsafak@anadolusigorta.com.tr |
| Cem Çözer | Specialist | 90 212 350 01 64 | ccozer@anadolusigorta.com.tr |

In his position as the head of the unit, Fatih Gören reports directly to the Head of Corporate Governance Committee.

This unit plays an active part in the protection of shareholding rights and facilitates their exercise, mainly regarding the right to obtain and review information, and establishes the communication between the Board of Directors and shareholders.

In its activities, the unit reports to the Board of Directors.

In essence, the Shareholder Relations Unit works to;

- Ensure maintenance of the records about Shareholders in a healthy, secure and up-to-date manner,
- Respond to the Shareholders' and potential investors' written information requests about the Company, apart from those that are not publicly disclosed, are of a confidential and/or commercial secret nature,
- Make available to the shareholders such information and disclosures that may have an effect on the exercise of shareholding rights on the Company website in an up-to-date manner
- Ensure that the General Assembly Meetings are convened in accordance with the applicable legislation, the articles of association and other internal regulations,
- Prepare the documents the Shareholders could make use of in the General Assembly,
- Ensure that the results of the voting are recorded and the reports thereon are sent to the Shareholders,
- Observe and comply with all considerations related to public disclosure, including the legislation and the Company's disclosure policy,
- Ensure representation of our Company in investor relations meetings organized in Turkey or abroad by international establishments through participation in such events,
- Prepare, and update as necessary, the presentation materials to be used in the meetings.

In 2012, all verbal information queries received from researchers and our investors in relation to our Company and/or to publicly disclosed financial statement results were answered. Requests for meetings received during the reporting period from national and international investment companies were accepted and necessary information was provided. In total, four teleconferences and 21 investor meetings were held in 2012, 11 of them with foreign investment companies. In these meetings, presentations were made on our sector and our Company, and the investors' questions were answered.

### 3. SHAREHOLDERS' EXERCISE OF THEIR RIGHT TO OBTAIN INFORMATION

All information queries of our Shareholders are answered, apart from those that are trade secrets or undisclosed information.

Information queries received from our Shareholders are evaluated by our employees in the Shareholder Relations Unit and are fully and prudently responded to as soon as possible and in a manner to fairly represent the truth, subject to the limits of trade secrets and confidentiality.

Information on the topics our Shareholders frequently need and developments that might affect the exercise of their rights are posted in English and Turkish languages on our website accessible at www.anadolusigorta.com.tr.

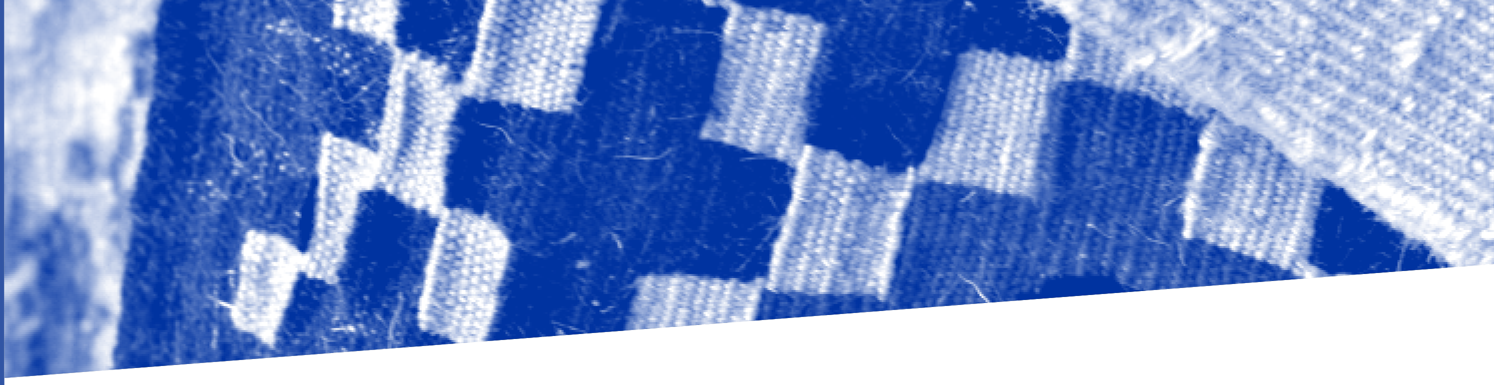
Pursuant to applicable legislation, minority Shareholders are entitled to request the General Assembly to appoint a special auditor for examining certain events.

In 2012, our Shareholders did not request appointment of a special auditor from the General Assembly of Shareholders.

Our articles of association contain no provisions stipulating the request for appointment of a special auditor as an individual right. On the other hand, each shareholder's request to have a special auditor appointed is reserved, provided that such shareholder satisfies the requirements under Article 438 of the TCC.

Given that the General Assembly must honor the request for appointment of a special auditor pursuant to applicable legislation and that such request constitutes one of the exceptions to the principle of adherence to agenda, inclusion of a provision in the articles of association stipulating such request as an individual right will be taken into consideration in the future depending on the developments, based on the concern that problems might arise in practice with regard to protection of the confidentiality of such information that is of commercial secret nature or that is not yet publicly disclosed.

It is believed that all information necessary for healthy exercise of Shareholders' rights is made available to our Shareholders on our website, in our annual report and material event disclosures in general, and through individual queries, in particular.



The Shareholders' queries in relation to the legal and commercial relationships between our Company and the real persons or legal entities with which our Company is directly or indirectly associated in terms of capital, management or auditing are also fulfilled to the extent permitted by the applicable legislation.

All information that might affect the Shareholders' exercise of their rights is made available to the same on our internet site in an updated manner, with a view to expand their right of obtaining information.

### 4. INFORMATION ABOUT GENERAL ASSEMBLY MEETINGS

In 2012, one General Assembly meeting was convened which was the 2011 Annual General Assembly meeting held on 29 March 2012.

The said meeting was held with the participation of Shareholders representing 59.4% or a portion of TL 297 million of our paid-in capital of TL 500 million.

While the Company's Board Directors, other relevant individuals, officials and auditors responsible for drawing up the financial statements, an official from the Independent Audit Company auditing the financial statements of the Company and some employees participated in the meeting, other stakeholders or media representatives did not attend the meeting.

The announcement on the meeting place, date, hour, agenda, including a specimen of a proxy statement was published at least three weeks prior to the meeting date in the Turkish Trade Registry Gazette, Akşam and Milliyet daily newspapers, in the ISE bulletin and at www.anadolusigorta.com.tr.

Care is taken that General Assembly announcements cover:

- The meeting date and hour
- The meeting place,
- Agenda,
- Necessary information about the agenda items,
- Former and current versions of the amended article(s) as approved by the related authorities, if the agenda covers any amendments to the articles of association,
- The body making the invitation,
- The reason for postponement of the original meeting and the meeting quorum for the current one, if the General Assembly is summoned to reconvene upon postponement of the original one for any reason,
- In ordinary meeting announcements, the address at which the annual report, financial statements, and other documents related to the General Assembly can be examined.
- Financial statements and reports including the annual report; informative documents on the General Assembly meeting agenda items for which there was a need, and other documents underlying the agenda items; the latest version of the articles of association and the amendment text, if applicable, and the grounds therefor, shall be made available at the Company headquarters and branches for review by our shareholders from the date of the announcement summoning the General Assembly.

All information and documents related to the General Assembly meeting are also accessible on the company website at the address www.anadolusigorta.com.tr. The following are also posted on the company website: total number of shares reflecting the Company's shareholding structure and voting rights; number of shares representing the class of preference shares and voting rights; grounds for the dismissal or substitution of Board Director(s) and information on individuals to be nominated to the seats on the Board of Directors, if the General Assembly meeting agenda contains such dismissal, substitution and/or election; additional items requested to be incorporated in the agenda by shareholders, Capital Markets Board (CMB) and/or other government authorities and agencies that govern the Company; the relevant Board of Directors decision, if the agenda covers changes to the articles of association and the former and new versions thereof.

During 2012, the Company did not engage in any transactions that might lead to a conflict of interest between the shareholders possessing management control, Board Directors, senior executives, and their spouses and relatives by blood or marriage up to the second degree with the Company or its subsidiaries. If such a transaction is planned, then prior approval shall be sought and information shall be provided at the General Assembly meetings.

During 2012, no transaction of material nature as per the legislation took place such as the Company's assignment of, or creation of real rights on, or letting all or substantial part of its assets; taking over or renting a material asset, stipulation of privileges or changing the scope or subject matter of existing privileges; or delisting. Unless a General Assembly meeting is required for such transactions, approval of the majority of independent Board Directors is sought for the execution of Board of Directors decisions pertaining to such transactions. In the absence of the approval of the majority of independent Board Directors in material transactions and if it is desired to execute the said transactions despite opposition by majority of independent Board Directors, the transaction shall be laid down at the General Assembly meeting for approval. In such a case, the grounds for the opposition of independent Board Directors must be publicly disclosed, notified to the CMB and read out in the General Assembly meeting to be held. If parties to the transaction are related parties, then related parties may not vote in General Assembly meetings. Quorum shall not be required for General Assembly meetings that will be convened for fulfillment of the obligation herein, and decisions shall be made by simple majority of those eligible to vote. Articles of association contain provisions governing this matter.

According to the Company's articles of association, the Board of Directors is authorized to pass decisions of material nature save for those, for which the General Assembly is authorized, including, among others, the following:

- Setting up or divesting associates or partnerships,
- Buying or selling properties or constructing buildings in the Company's name.

To facilitate participation in the General Assemblies, utmost attention is paid to fully comply with the points stipulated by the legislation, and it is believed that our shareholders are not faced with any difficulties with regard to participation in General Assemblies. To date, no notifications to the contrary were received from our Shareholders, either.

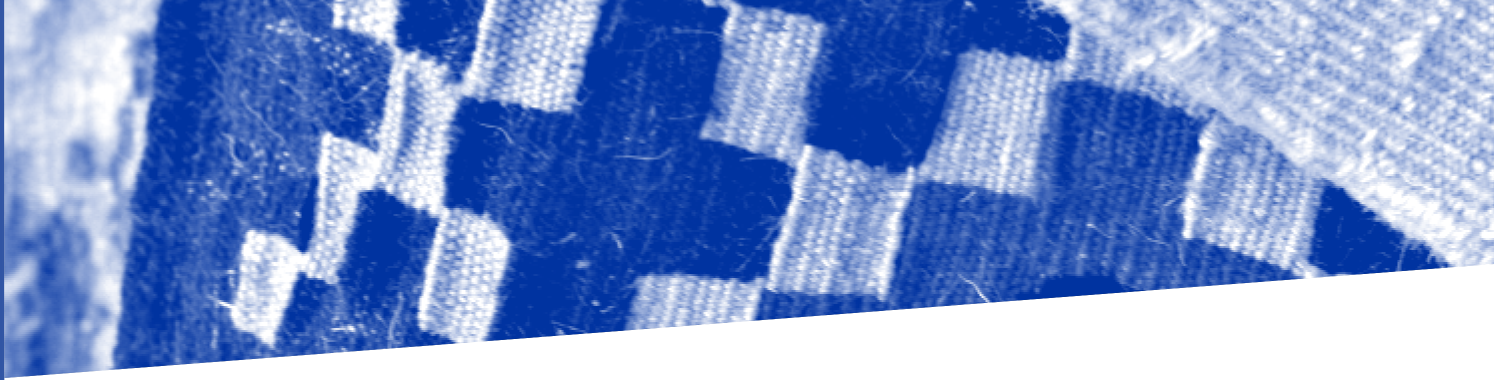
Minutes of the General Assembly meeting are delivered to the shareholders upon conclusion of the meeting, and are made available in Turkish and English languages for electronic access at our website at www.anadolusigorta.com.tr, in order to keep non-participating shareholders informed.

Prior to the General Assembly, our Company informs our Shareholders on the changes in the management and operational organization that took place in the previous fiscal year or are planned for the future periods.

Within this scope, the following are made available at the General Assembly to be presented for examination by our Shareholders:

- The Company's explanation and grounds for organizational structure change,
- Report by the firm, if any, from which consultancy is obtained; in the absence of such a firm, information and documents prepared by our Company in relation to this matter,
- In the case of organization changes in subsidiaries and affiliates, annual reports and annual financial statements and proforma financial statements for the latest three fiscal years of all enterprises that are subject to organizational structure change

In the preparation of the General Assembly agenda, care is paid to include each proposal under a separate heading, to word the agenda headings clearly and in a manner to avoid different interpretations, and not to insert any agenda items like "others" or "various" as also prohibited by the applicable legislation.



For Shareholders who will have themselves represented in the General Assemblies in proxy, a specimen of a proxy statement is publicized along with the meeting announcements, and is also made available to Shareholders on the electronic medium.

The procedures and principles of voting in our Company's General Assemblies are listed below:

- Each Class (A) share is entitled to ten, and each Class (B) share is entitled to one vote.
- In the case where one share is held by multiple owners, such votes may be cast only via a joint representative.
- Our Shareholders may participate in the General Assemblies personally or have themselves represented in proxy.
- Open voting by raise of hands is employed in General Assemblies. However, upon demand by participating Shareholders representing one tenth of the capital, secret voting will be carried out.

The procedures and principles of voting are also announced to the Shareholders at the beginning of the meeting.

Topics that are communicated by our Shareholders to the Company's Shareholder Relations Unit, which they would like to be included in the agenda, are evaluated by the Board of Directors in the preparation of the agenda.

Pursuant to the applicable legislation and to the articles of association, ordinary general assembly must be held within three months following the end of each fiscal year.

In line with our articles of association, General Assemblies are held in the place where our Company headquarters is located and at a venue that will enable participation by all our Shareholders.

Total number of votes that may be cast during the General Assembly and the privileges enjoyed are classified on the basis of Shareholders and are provided to the Shareholders at the beginning of the meeting by means of their insertion in the list of attendants.

During General Assemblies, our Shareholders are informed on the news and analyses about disputed topics on the Company that were covered by the media.

Questions posed by our Shareholders to the Board of Directors or Auditors are answered, provided that such questions are essential for exercise of shareholder rights and are not trade secrets.

The General Assembly Chairman chairs the meeting efficiently and in a manner to ensure that Shareholders can exercise their rights.

Care is paid to answer every question raised during the General Assembly by the Shareholders during the same meeting, and to provide written answers within no more than thirty business days, in case the question raised is not relevant to the agenda or is too comprehensive to be answered promptly.

Directors, authorized employees responsible for the preparation of financial statements and auditors, and other relevant people to offer explanations on the agenda topics that are of specialty spend their best efforts to be present in the meeting.

In General Assemblies, each agenda item is voted individually, and for the avoidance of doubt in relation to voting results, the votes are counted and the results are announced to the Shareholders before the General Assembly is concluded.

At the Annual General Assembly held on 29 March 2012, shareholders ratified items two, three, eleven, twelve and thirteen below by majority of votes, and the other items unanimously:

1. Election of the Presiding Board and authorization of the Presiding Board to sign the minutes of the General Assembly,
2. Presentation of, and discussion on, the Board of Directors' and Statutory Auditors' reports for 2011,
3. Review and ratification of 2011 financial statements and individual acquittal of the Board Directors and Statutory Auditors,
4. Presentation of information on dividend distribution policy; resolution related to dividend distribution,
5. Approval of the changes to the articles of association,

6. Approval of the memberships of individuals elected, as per Article 315 of the Turkish Commercial Code and article 18 of the articles of association, to the seats vacated during the reporting period on the Board of Directors,
7. Presenting information on the statutory auditor elected for the duty of statutory auditor vacated during the reporting period,
8. Presenting information on the Remuneration Policy,
9. Election of the Board Directors and determination of their terms of office,
10. Authorizing the Board Directors to carry out the transactions specified in Articles 334 and 335 of the Turkish Commercial Code,
11. Election of statutory auditors,
12. Determination of remuneration for the Board Directors and for statutory auditors,
13. Presentation of information on the donations and grants made during the reporting period.

During the meeting, our shareholders have been informed that the Company donated TL 30,000 to the Turkish Red Crescent as relief for the hunger disaster in Africa.

During the General Assembly, none of our shareholders exercised their right to pose questions.

No agenda items have been proposed by our shareholders during the meeting.

Minutes of the General Assemblies are accessible in electronic medium in Turkish and English languages at the website at www.anadolusigorta.com.tr or in written form.

### 5. VOTING RIGHTS AND MINORITY RIGHTS

The issued capital of our Company as of end-2005 consisted of Class (A) shares with a nominal value of TL 50 and Class (B) shares with a nominal value of TL 500, and by means of granting equal voting rights to shares that did not have equal nominal values, Class (A) shares were granted privilege in voting. While the articles of association section related to capital was amended within the framework of the Law no. 5083 on the Currency of the Republic of Turkey and Law no 5274 Concerning the Amendment of the Turkish Commercial Code during the 2005 Ordinary General Assembly held on 30 March 2006, nominal values of Class (A) and (B) shares were equalized at Kr 1. At the same General Assembly, the articles of association section concerning votes was amended as follows so as to maintain the existing privilege: "Each Class (A) share is entitled to ten, and each Class (B) share is entitled to one vote." In the present situation, the Company's issued capital in the amount of TL 500,000,000 consists of Class (A) shares divided into 150 shares each with a nominal value of Kr 1 and all with a value of TL 1.5, and Class (B) shares divided into 49,999,999,850 shares each with a value of Kr 1 and all with a value of TL 499,999,998.5.

Class (A) shares have no privileges other than the voting right privilege mentioned above. In capital increases, new Class (A) shares are not created.

There are no cross-shareholding interests between any Shareholder and the Company.

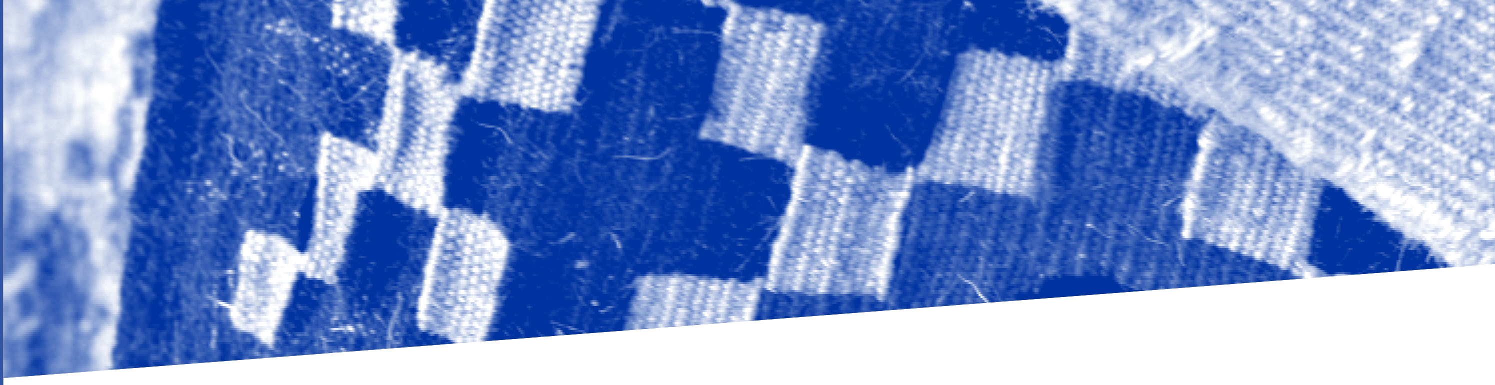
Minority shares are not represented in our Board of Directors which is elected under the discretion of the General Assembly.

There are no upper limits with regard to the number of votes that our Shareholders are allowed to cast in the General Assemblies.

Voting right arises at the time the share is acquired and there are no provisions stipulating exercise of the voting right after lapse of a certain period of time after the date of acquisition.

Our articles of association contain no provisions preventing non-Shareholders from casting votes in proxy in the capacity of representatives.

Shareholders may exercise their voting rights personally in the General Assemblies or via a third party that may or may not be a Shareholder.



Each real person Shareholder is represented in the General Assemblies by one person only; in the case that legal entity Shareholders are represented by several people, only one may cast votes. The person empowered to vote is named in the certificate of authority.

## 6. ENTITLEMENT TO DIVIDENDS

The Company's Dividend Distribution Policy is presented below. It is also presented in the General Assembly meeting for the information of shareholders, and takes place in annual reports and posted on the corporate website.

The Company's articles of association sets forth it as a principle to distribute first dividends out of the distributable profit in the ratio and amount determined by the Capital Market legislation.

Dividend distributions proposal laid down for the approval of the General Assembly by the Board of Directors, which take place in the annual report and on the corporate website, are formulated based on a Dividend Distribution Policy that pays attention to

- Preserving the delicate balance between the expectations of our Shareholders and the Company's need to grow,
- The profitability of the Company.

In the event that the Board of Directors proposes against distributing profit to the General Assembly, the reasons therefor and information on the use of retained earnings shall be presented to the shareholders during the General Assembly. The same will also be included in the annual report and posted on the corporate website.

The dividend policy espoused by the Board of Directors is based on the principle of proposing to the General Assembly the distribution of at least 30% of the attributable profit as bonus shares or in cash.

No shares are privileged in terms of getting share from the profit.

No founder's bonus certificates are given, nor are dividends paid to the Board Directors.

Pursuant to the articles of association, our employees are paid dividends up to three times of their salaries maximum from the amount remaining after the first dividend is set aside.

Care is paid to effect the dividend payments as soon as possible, taking into consideration the time stipulated by the legislation.

The articles of association contain no provisions stipulating payment of advances on dividends.

Our Company did not distribute dividends in 2012 since it did not book any profit based on the 2011 consolidated financial statements.

## 7. TRANSFER OF SHARES

The Company's articles of association contain no provisions restricting the transfer of shareholding interests.

All our Shareholders including minority and foreigner Shareholders are treated equally.

# PART II - PUBLIC DISCLOSURE AND TRANSPARENCY

## 8. DISCLOSURE POLICY

The Company disclosure policy, which is approved by the Board of Directors, is posted on the corporate website. In case of any changes in the disclosure policy, the points subject to change and the reasons therefor are publicly disclosed via the Public Disclosure Platform upon approval of the Board of Directors. The main headings of the disclosure policy are presented below:

- General framework
- Authority and responsibility
- Public disclosure work and the methods and tools used
- Other announcements made
- Designation of individuals with administrative responsibility
- Corporate website
- Annual report and other matters

In our Company, the Board of Directors is authorized and responsible for monitoring, observing and improving the public disclosure policy.

Managers responsible for financial management and reporting, and the Shareholders Relations Unit described in Part II are assigned with the coordination of disclosure function. The said people fulfill these responsibilities in close cooperation with the Audit Committee and the Board of Directors.

### 9. COMPANY INTERNET SITE AND ITS CONTENT

The Company has an internet site prepared in Turkish and English languages, accessible at the address www.anadolusigorta.com.tr. The Company website is actively used in providing information and public disclosure.

The Company website features the information and data stipulated by the Corporate Governance Principles and regulatory authorities. In addition to the information that are mandatory to be disclosed as per the legislation, the website covers trade registry data, most recent shareholding and management structure, detailed information on preferential shares, articles of association and the dates and numbers of Trade Registry Gazettes in which the changes are promulgated, material event disclosures, financial reports, annual reports, prospectuses and public offering circulars, agenda, list of attendants and minutes of General Assemblies, proxy voting form, mandatory information sheets drawn up for tender offers or collecting proxies, dividend distribution policy, disclosure policy, information on transactions with related parties, rules of ethics formulated by the Company, and information requests, queries and notifications and the responses provided thereto under the heading "Frequently Asked Questions". In this framework, the website contains Company-related information covering the past five years at a minimum. A big part of the information is also translated into and made available in English so as to enable international investors to make use of them.

Attention is paid to comments and suggestions received via our website and are taken into consideration at the Company. Care is paid to keep the website up-to-date.

The Company's letterhead contains the website address.

### 10. ANNUAL REPORT

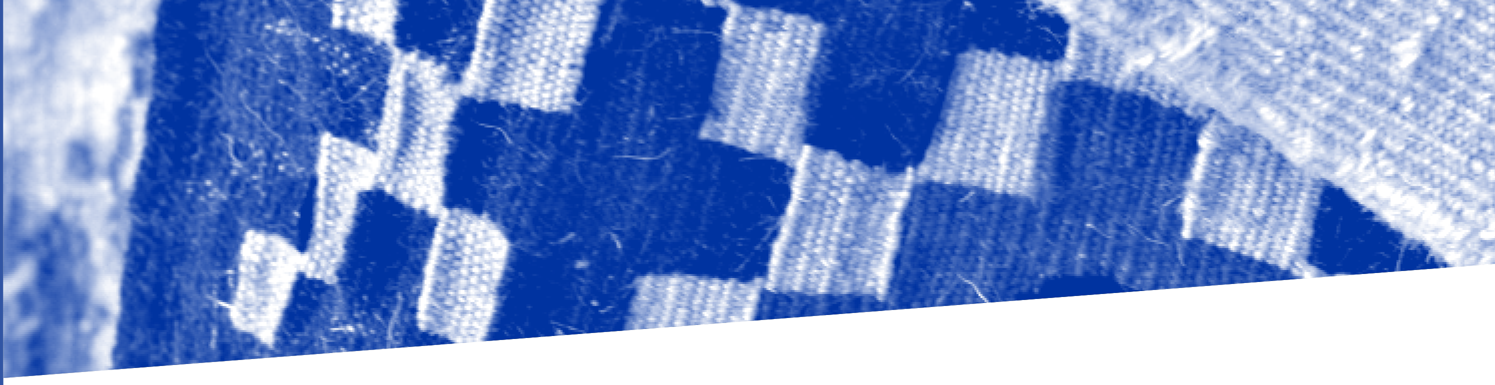
The Company's annual reports are prepared in sufficient detail to cover the information listed in Corporate Governance Principles.

The annual activity report is prepared by the Board of Directors and incorporates the declaration that financial statements present a true and fair view of the Company's financial status and that the Company achieved full compliance with the legislation.

## PART III -STAKEHOLDERS

### 11. KEEPING STAKEHOLDERS INFORMED

In matters concerning our Shareholders, employees, creditors, customers, suppliers, various NGOs, the Government and potential investors that might consider investing in our Company, i.e. the stakeholders, care is taken to provide information in writing and to base the relations with such parties on written contracts as much as possible.



In cases where the rights of stakeholders are not regulated by the legislation or contractually, the interests of the stakeholders are protected within the framework of the rules of good faith and to the extent permitted by the Company's facilities, observing the Company's credibility at the same time. The necessary structure is in place to enable stakeholders to report such transactions of the Company that are contradictory to the legislation or are unethical.

## 12. STAKEHOLDER PARTICIPATION IN MANAGEMENT

While the articles of association contain no provisions on stakeholder participation in the Company's management, the Company's internal regulations cover practices to this end.

An employee proposal guideline has been formulated. Proposals that are innovative and aimed at improvement are assessed within the framework of this guideline and put into life across the Company.

Annual Agencies Meeting and İşbank Branches Meeting are each convened once a year, Regional Agencies Meeting takes place nine times a year and Managers Meeting is organized at least twice a year.

## 13 HUMAN RESOURCES POLICY

The basic principles of the Company's human resources policy are stated below.

Job descriptions and distributions, along with the performance criteria are set by the Company management and announced to the employees.

Hiring activities are based on the principle of giving equal opportunities to people of equal qualities. Criteria for hiring are put into writing on the basis of titles and are followed in practice.

Succession planning is made to identify the new managers to be appointed in cases where it is predicted that changes in a managerial position will cause hitches in the management of the Company.

In decisions on training, transfer and promotion, objective data are used and the Company's interests are observed as much as possible.

Training plans are formulated aimed at developing our employees' knowledge and skills.

Company employees are members of the Bank and Insurance Employees Union. Our Company supports active acknowledgment of the freedom of association and the right to collectively bargain.

To handle the relations with employees, there are union representatives who are designated by the Union of Banking and Insurance Workers organized at our Company from amongst our headquarters and regional branch employees.

Safe working environment and conditions are provided for our employees; work is undertaken to improve these conditions depending on social and technological necessities.

Decisions made in relation to our employees or developments concerning them are shared with the employees.

Measures are adopted to prevent discrimination on the basis of race, religion, language and sex among the employees, to ensure human rights are respected and to protect the employees against internal physical, mental and emotional abuse.

No complaints have been received on account of discrimination among Company employees.

## 14. CODES OF ETHICS AND SOCIAL RESPONSIBILITY

Codes of ethics setting out the professional ethics that the Company and its employees are required to abide by when performing their activities within the existing laws and regulations is posted on the corporate website.

Attention is paid that the projects offered with cover are in compliance with the applicable environmental safety and public health legislation.

Until today, no charges were filed or no sanctions were imposed against our Company on account of any environmental protection infringement.

Within the frame of its commitment to social responsibility, our Company extends support to education, academic activities, sports organizations, and cultural and artistic events. Through the "One Master, Thousand Masters" social responsibility project launched in 2010 and currently in progress, it is intended to focus the public attention on vanishing vocations and local values, and to help revive them.

# PART IV - BOARD OF DIRECTORS

## 15. STRUCTURE AND FORMATION OF THE BOARD OF DIRECTORS; INDEPENDENT BOARD DIRECTORS

The Company's Board of Directors is composed of nine members so as to enable our Board Directors to work efficiently and constructively, make decisions swiftly and rationally, and organize the formation and activities of the committees efficiently.

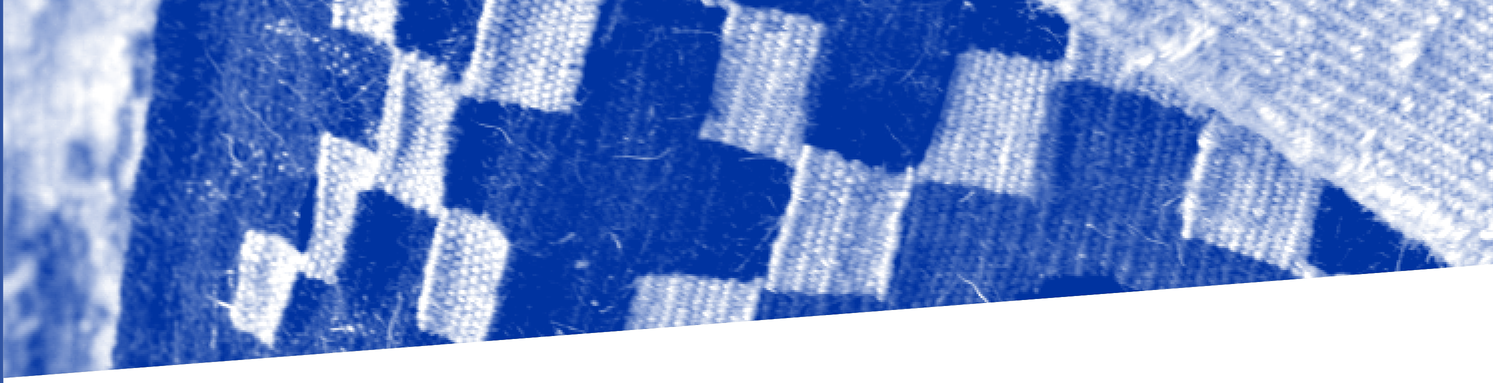
Taking into consideration that there are no non-corporate ultimate Shareholders with a controlling interest in the Company, it is thought that the Board Directors all naturally possess the advantage to act independently, and therefore, to be impartial in their decisions, upholding the interests of our Company and the stakeholders above everything else.

There are two independent members on the Board of Directors. The independent Board Directors have not served as members for more than six years in the past ten years. While the term of office for an independent Board Director is limited to three years, they can be reelected upon being nominated.

Two candidates for independent Board Director status have been submitted to the Corporate Governance Committee serving in lieu of the Nomination Committee, and the report on whether the candidates fulfill the criteria of independence has been presented to the Board of Directors on 8 March 2012.

Independent Board Directors fulfill the independence criteria published in the relevant legislation, and their declarations of independence have been duly received. No instances took place during the reporting period, which would compromise independence. If an instance compromising independence arises, then the independent Board Director shall present such change immediately to the Board of Directors to be disclosed to the public. In such a case, the Board Director who loses his independence shall resign as a matter of principle.

Apart from the Chairman of the Board of Directors and the CEO, the Board of Directors consists of non-executive members. Chairman of the Board and CEO functions are carried out by different individuals.



Information about our Board Directors is presented below.

| Name & Surname | Title | Degree | Discipline | Entity Worked | Title Held in the Entity | Professional Experience |
|---|---|---|---|---|---|---|
| Caner Çimenbiçer | Chairman & Managing Director | Bachelor's | Faculty of Administrative Sciences | - | - | 38 years |
| Ahmet Doğan Arıkan | Deputy Chairman | Bachelor's | Faculty of Administrative Sciences | - | - | 39 years |
| Musa Ülken | Member & CEO | Bachelor's | Faculty of Administrative Sciences | Anadolu Anonim Türk Sigorta Şirketi | CEO | 34 years |
| Fahri Kayhan Söyler | Member | Bachelor's | Faculty of Economic and Administrative Sciences | - | - | 36 years |
| Hakan Aran | Member | Bachelor's | Faculty of Engineering | Türkiye İş Bankası A.Ş./In-Group | Deputy Chief Executive Officer | 17 years |
| Hasan Hulki Yalçın | Member | Master's | Banking and Finance | Milli Reasürans T.A.Ş./In-Group | Chief Executive Officer | 23 years |
| Recai Semih Nabioğlu | Member | Master's | Faculty of Economic and Administrative Sciences | Türkiye İş Bankası A.Ş./In-Group | Unit Manager | 22 years |
| Prof. Turkay Berksoy | Independent Member | Doctorate | Faculty of Economic and Administrative Sciences | Marmara University/ Non-Group | Chair of the Finance Department | 37 years |
| Mehmet Rasgelener | Independent Member | Master's | Economics and Statistics | - | - | 34 years |

When fulfilling its decision-making function, the Board of Directors acts on the basic considerations of;

- Maximizing the fair value of the Company,
- Pursuing the Company operations so as to ensure long-term and stable earnings for our Shareholders,
- Maintaining the delicate balance between the Shareholders and the Company's need to grow.
- In the formation of the Board of Directors, care is given to;

Ensure that the nominees are present in the meeting at the time of election to the seats on the board of directors,

- Inform the Shareholders about the nominees,
- Allow Shareholders to ask questions to the nominees,
- Inform the Shareholders, during the General Assemblies, on other companies on the boards of which Director nominees serve and on the compliance or non-compliance to internal regulations set exclusively on this topic.

Our Board of Directors takes care to hold regular monthly meetings.

Approval of the majority of independent Board Directors is sought for the Board of Directors decisions pertaining to all kinds of the Company's transactions with related parties and to furnishing guarantee, pledge and mortgage in favor of third parties. If majority of the independent Board Directors do not approve the transaction, this is publicly disclosed, providing adequate information on the transaction within the frame of public disclosure requirements, and the transaction is laid down for the approval of the General Assembly. The matter is decided in the said General Assembly meetings through voting where the parties to the transaction and their respective related parties may not cast votes, thus involving other shareholders in such decisions at the General Assembly. Meeting quorum shall not be sought for General Assembly meetings that will be held for circumstances specified in this article. Decisions are made with the simple majority of those eligible to cast votes. Board of Directors and General Assembly decisions passed in violation of the principles herein shall be null and void. The articles of association cover provisions governing these aspects.

There are no administrative or judicial sanctions imposed against the Company or the members of the governing body.

There are no woman members on our Board of Directors.

Although there are no set rules on non-independent Directors' undertaking other duties outside the Company, the Directors do not have any other duties apart from their natural duties in the entities they represent and from those in the establishments owned by the entities they represent. Yet, Board Directors devote sufficient amount of time for Company affairs, and exercise their powers prudently and within the frame of good faith, possessing all necessary knowledge to ensure full performance of the duty.

Past experiences, and outside positions held, if any, of the independent Board Directors are disclosed in their résumés and presented on our website and in our annual report.

## 16. OPERATING PRINCIPLES OF THE BOARD OF DIRECTORS

The draft Board meeting agenda is prepared by the CEO, and finalized in line with the proposals of the Chairman and the Board Directors.

The Board of Directors met twelve times in 2012.

Care is paid to determine the meeting date so as to allow all Directors to participate. Save for unforeseeable exceptional events, the Board meetings are held with the participation of all Directors.

Attention is given to set the Board meeting date during the immediately preceding meeting, followed by written invitation.

The existing secretariat responsible for execution of the Board activities, keeping the Directors and auditors informed, and establishing communication with them was transformed into Board of Directors Reporting Unit in 2005.

No dissenting votes were cast by any Director against the Board decisions made in the reporting period.

The Board of Directors holds its first meeting preferably on the date the same is elected.

During the first meeting, the chairman and the deputy chairman of the board are elected, and decisions are made on the job distribution and establishment of committees.

Board Directors, in principle, attend every meeting.

The Board of Directors takes care to meet regularly and at least monthly as pre-scheduled, and at any time as and when deemed necessary.

Utmost care is paid to ensure that the information and documents about the topics covered in the Board meeting agenda are made available for the examination of the Directors at least five days in advance, and when such timing cannot be met, efforts are spent to ensure equal flow of information to the Board Directors.

Each Director is entitled to one vote and none has weighted vote or affirmative/negative vetoing rights.

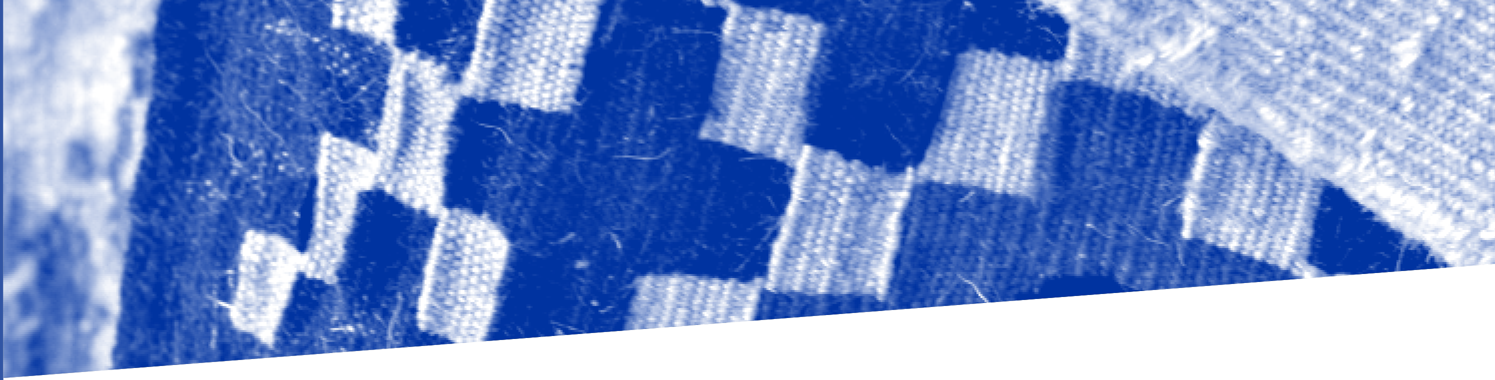
Pursuant to the articles of association, the Board of Directors convenes on the basis of absolute majority and makes decisions with the absolute majority of Directors present in the meeting.

## 17. NUMBERS, STRUCTURES AND INDEPENDENCE OF COMMITTEES WITHIN THE BOARD OF DIRECTORS

There is an Audit Committee, a Corporate Governance Committee and a Committee of Early Detection of Risk in our Company.

Owing to the structure of the Board of Directors, Corporate Governance Committee also fulfills the functions of Nomination Committee and Remuneration Committee.

There are two non-executive Board Directors in each one of the Committees.



As a matter of principle, Board Directors do not undertake roles in several committees.

However, since all members of the Audit Committee and the chairman of the Corporate Governance Committee must be elected from amongst independent Board Directors, our independent Board Directors serve on two different committees.

The Corporate Governance Committee is formed by the Board of Directors within the scope of corporate governance principles and firstly from amongst its members. When necessary, specialist individuals who are not members of the Board of Directors may be assigned to the committee. The Chief Executive Officer shall not take place in this committee. The Committee consists of a minimum of two members. The majority of the Committee members consist of non-executive Board Directors. The head of the Committee is elected from amongst independent Directors. The term of office for the Corporate Governance Committee is, in essence, parallel to that of the Board of Directors; the Committee, however, will remain in office until the completion of the predetermined compliance process, when the Board of Directors is succeeded. To the extent possible, the Committee meets consistently with the Board of Directors meetings. Committee decisions are adopted on the basis of the majority of votes cast.

Audit Committee

The Audit Committee is formed by the Board of Directors, from amongst its own members. The Committee consists of a minimum of two members. The majority of the Committee members consist of non-executive Board Directors. The members of the Committee is elected from amongst independent Directors. Two employees holding titles are assigned by the Board of Directors for ensuring coordination between the Audit Committee and the Company. The term of office for the Corporate Governance Committee is, in essence, parallel to that of the Board of Directors; the Committee holds at least quarterly meetings. Committee decisions are adopted on the basis of the majority of votes cast.

The term of office of the Committee of Early Detection of Risk is parallel to that of the Board of Directors. The Committee spends efforts to early detect the risks that might endanger the existence, progress and survival of the Company, to ensure implementation of necessary measures and remedies in relation to the identified risks, and to manage the risk. The Committee presents an assessment of the situation in its bimonthly report to the Board of Directors, pointing at the perils, if any, and indicating the remedies. The report is also sent to the statutory auditor. The Committee will also review the risk management systems at least on an annual basis.

Prof. Turkay Berksoy and Hasan Hulki Yalçın serve on the Company's Corporate Governance Committee. The Committee is headed by Prof. Turkay Berksoy.

Prof. Turkay Berksoy functions as the head of the Audit Committee, and Mehmet Rasgelener as its member.

The Committee of Early Detection of Risk is headed by Mehmet Rasgelener, where Hakan Aran serves as a member.

All members of the Audit Committee and the heads of other committees are elected from amongst independent Board Directors.

Our executive members and CEO do not serve on any committee.

Structures and operating principles of committees have been put into writing and posted on our Company website.

Taking into consideration that there are no non-corporate ultimate Shareholders with a controlling interest in the Company, it is thought that the Board Directors all naturally possess the advantage to act independently, and therefore, to be impartial in their decisions.

## 18. RISK MANAGEMENT AND INTERNAL CONTROL MECHANISM

From 2005 onwards, the "inspection" work previously performed by the Board of Inspectors was started to be carried out by the Internal Audit Department under the name "auditing", in line with the new regulation and requirements imposed thereby. In line with the clearance received from the Turkish Treasury General Directorate of Insurance, the name of the "Internal Audit Department" was changed to the "Board of Inspectors". In this frame, the Board of Inspectors conducts on-site audits of all the units in the Headquarters, regional branches, and the branches at least once a year, of all agencies at least once in every three years, of those agencies that take an exceptionally high share of 5% or higher in total premium production or low share in collection at least once a year, within the scope of the inspection program prepared by the head of the Board of Inspectors and approved by the Board of Directors. Besides these inspection activities, the Board of Inspectors also conducts investigations and examinations.

Set up in 2006 in order to restructure the risk management systems and processes, the Risk Management Department's activities were expanded in scope to cover internal control activities within the frame of the provisions of the "Regulation on the Internal Systems of Insurance, Reinsurance and Pension Companies" published in the Official Gazette issue 26913 dated 21 June 2008. Along the same line, the Department was renamed to Risk Management and Internal Control Department.

The primary objectives of the Department's activities are as follows:

- Measure, assess and control risks independently from executive units,
- Protect Company assets,
- Ensure efficient and effective execution of activities in line with the Law and other applicable legislation, internal policies and guidelines, as well as customary insurance practices,
- Guarantee the reliability, integrity and timely availability of the accounting and financial reporting system.

The basic strategy directed towards the ultimate goal is to carefully plan, conduct and manage risk management and internal control activities independently, impartially, purposefully, effectively and efficiently, employing a risk-focused approach and within the frame of applicable legislation and internationally accepted principles and standards. The basic principle in achieving this goal is to employ the most advanced tools and methods that are available and possible to use.

The activities of the Department are administered directly by the CEO. The Board Director responsible for Internal Systems is also responsible toward the Board of Directors for the formation of the Department and ensuring, monitoring and coordinating its operability, adequacy and effectiveness.

All outcomes obtained by examining the risks independently from executive functions are regularly reported by the Department to the Board Director responsible for Internal Systems, to the CEO and the Board of Directors.

## 19. STRATEGIC GOALS OF THE COMPANY

The Company's vision is set as:

"To make our Company the insurance brand preferred by everyone who needs insurance, and to achieve a strength that makes it a reference point in the worldwide insurance industry as well."

And its mission as:

"In keeping with the deeply-rooted, pioneering, honest and solid corporate values of Anadolu Sigorta, to lead the sector, to help create a broad public awareness of insurance in Turkey, to implement a customer-focused approach to service, to increase our financial strength to international standards, to enhance the value of our Company."

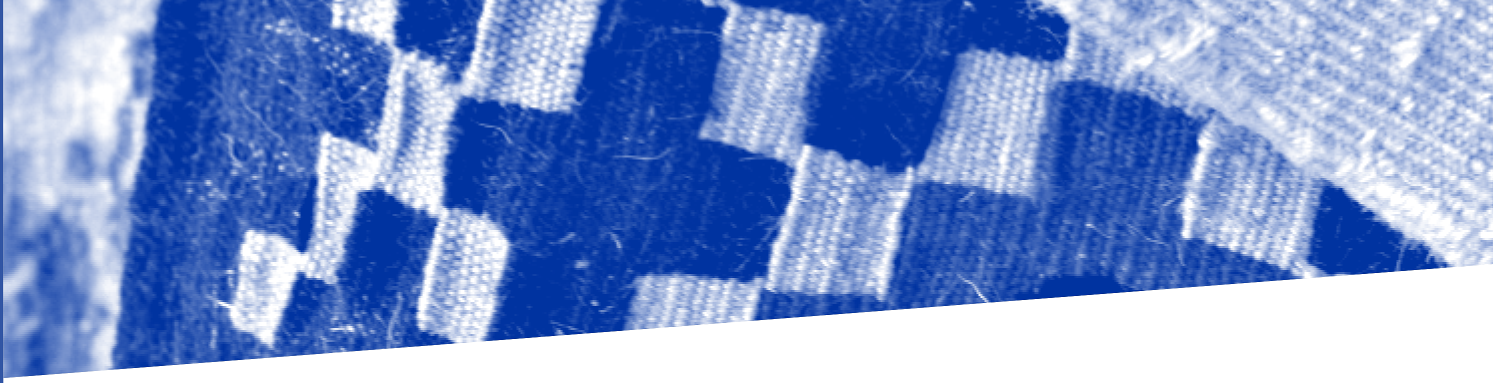
Our Company's vision and mission are publicly disclosed on our website accessible at www.anadolusigorta.com.tr.

Our strategic goals are set by our executives with a keen eye on competitive conditions, general economic conjuncture, overall expectations in national and international financial markets, and the Company's medium and long term targets.

Strategies and targets proposed are negotiated comprehensively by the Board of Directors on a broad perspective.

Actualizations in relation to approved strategies and targets are reviewed during Board meetings and monthly within the scope of the assessment of Company operations, financial structure and performance level.

In principle, the Board of Directors meets monthly in order to efficiently and continuously fulfills its monitoring and supervision function.



In the meetings, the basic topics of assessment are the Company activities, approved annual budget and target realizations, the Company's place in the sector, financial structure and performance level, reporting, and compliance of operations to international standards.

## 20. FINANCIAL RIGHTS PROVIDED TO THE BOARD OF DIRECTORS

Aggregate of the salaries and similar benefits provided to the Company's Board Directors and senior executives are disclosed in the notes to the financial statements and thereby, incorporated in our annual report. They are also posted on the corporate website and publicly disclosed.

With a view to giving the shareholders the chance to voice their comments, the remuneration principles for the Board Directors are presented as a separate item for the information of shareholders. The remuneration policy developed for the Company's managers and employees at any level is put into writing, presented to the General Assembly for information, and is published on the Company website.

Stock options or payment plans based on the Company's performance are used in the remuneration of our Board Directors, including the independent Board Directors. Nonetheless, it is believed that the remuneration of independent Board Directors is at a level that will not prejudice their independence.

The Board Directors and senior executives have never utilized, directly or indirectly, cash or non-cash loans from the Company, nor did the Company lent money or gave suretyship or provided any similar guarantee to any Board Director or senior executive.

## COMMITTEES OPERATING WITHIN ANADOLU SİGORTA

### Corporate Governance Committee

#### Objective

Overseeing the Company's compliance with corporate governance principles, undertaking improvement work thereon and submitting proposals to the Board of Directors.

#### Members

Head of Committee: Prof. Turkay Berksoy

Member: Hasan Hulki Yalçın

#### Formation

The Corporate Governance Committee was set up upon approval by the Board of Directors decision 5508 dated 10 March 2005. The Committee is formed, subject to corporate governance principles, by the Board of Directors and primarily from amongst Directors. As and when needed, non-Director individuals who are specialized in their respective fields can also be assigned to the committee. The CEO does not take place in this Committee.

The Committee consists of a minimum of two members. The majority of the Committee members consist of non-executive Board Directors. The head of the Committee is elected from amongst independent Board Directors.

The term of office for the Corporate Governance Committee is, in essence, parallel to that of the Board of Directors; the Committee, however, will remain in office until the completion of the predetermined compliance process, when the Board of Directors is succeeded.

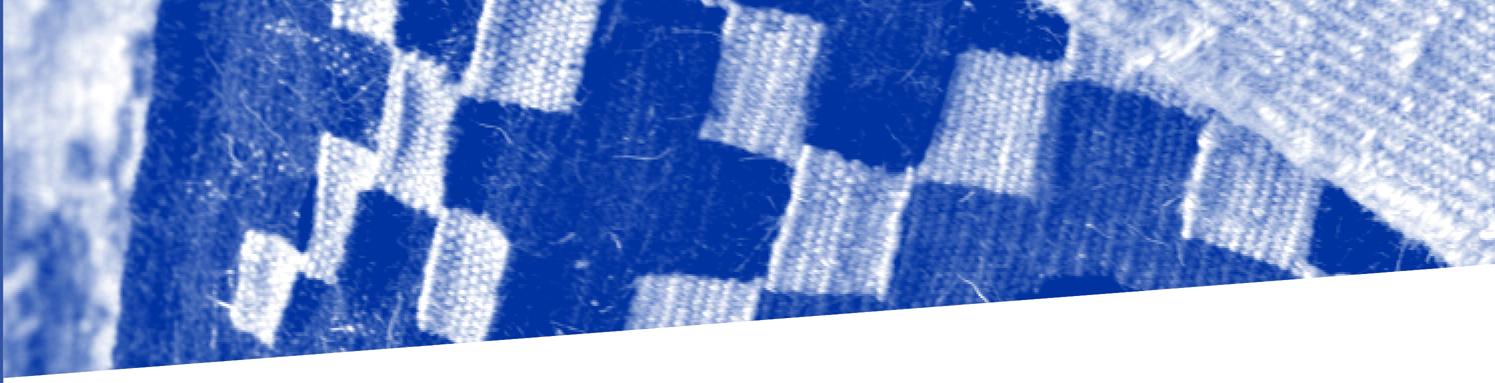
To the extent possible, the Committee meets consistently with the Board of Directors meetings. Committee decisions are adopted on the basis of the majority of votes cast.

#### Activities

Following the Committee meetings, the head of the Committee provides written reports on the activities of the Committee to the Board of Directors, and either informs the members of the Board Directors, or provides them to be informed, on the Committee's meeting minutes.

In essence, the Corporate Governance Committee;

- Establishes whether the corporate governance principles are implemented in the Company, as well as the grounds for non-implementation, if applicable; conflicts of interest, if any, arising from failure to fully comply with these principles, and presents proposals to the Board of Directors for the improvement of the practices;
- Coordinates the tasks of the Investor Relations Unit;
- Works to create a transparent system regarding identification, assessment, training and rewarding of nominees eligible for the Board of Directors, and establishes related policies and strategies;
- Formulates recommendations regarding the number of Board Directors and executives (CEO, Deputy Chief Executives, Managers, Assistant Managers, personnel directly reporting to Chairman of the Board of Directors or the CEO, as well as other people such as advisors);
- Sets and oversees the approaches, principles and practices regarding performance evaluation, career planning and rewarding of Board Directors and executives.
- Carries out the activities set out in the Remuneration Policy.



**Audit Committee**

### Objective

Overseeing the operation and efficiency of the Company's accounting system, public disclosure of financial information, independent auditing of the Company, and internal control system.

### Members

Head of the Committee: Prof. Turkay Berksoy

Member: Mehmet Rasgelener

### Formation

- The Committee was set up upon approval by the Board of Directors decision 5317 dated 26 June 2003. The Audit Committee is formed, subject to corporate governance principles, by the Board of Directors from amongst its Directors.
- The Committee consists of a minimum of two members. The majority of the Committee members consist of non-executive Board Directors. The head of the Committee is elected from amongst independent Board Directors. Two employees holding titles are assigned by the Board of Directors for ensuring coordination between the Audit Committee and the Company.
- The term of office for the Audit Committee is, in essence, parallel to that of the Board of Directors; the Committee holds at least quarterly meetings. Committee decisions are adopted on the basis of the majority of votes cast.

### Activities

Following the Committee meetings, the head of the Committee provides written reports on the activities of the Committee to the Board of Directors, and either informs the members of the Board Directors, or provides them to be informed, on the Committee's meeting minutes.

In essence, the Audit Committee;

- Audits the conformity of periodical financial statements and notes to be publicly disclosed to applicable legislation and international accounting standards, and reports the same to the Board of Directors, by incorporating the opinion of the independent audit firm;
- Takes necessary action to ensure sufficient and transparent conduct of any and all internal and independent audits;
- Oversees the operation and efficiency of the Company's accounting system, public disclosure of financial information, independent auditing of the Company, and internal control system. The Committee also supervises the selection of the independent audit firm, preparation of audit contracts and initiation of independent audit process, and every phase of the work carried out by the independent audit firm;
- Gives approval to the selection of, from the independent audit firm and the services to be supplied from them which the Company will obtain service, and submits the same to the Board of Directors. The Committee prepares a report as to whether there exists any matter that might impair the independence of the independent audit firm prior to its submission to the Board of Directors.
- Examines the complaints received by the partnership regarding the Company's accounting, internal control system and independent audit, and ensures examination of related notifications by the Company employees subject to confidentiality principles;
- Oversees compliance with internal regulations and policies aimed at preventing conflicts of interest that might arise between the Directors, executives and other employees, and at preventing abuse of trade secret information.

## Committee of Early Detection of Risk

### Objective

Managing the risks that might threaten the existence, progress and survival of the Company.

### Members

Head of the Committee: Mehmet Rasgelener

Member: Hakan Aran

### Formation

The Committee of Early Detection of Risk was set up as a result of the discussion of the proposal by the CEO's office dated 24 February 2012, numbered 3550, pursuant to Article 4.5.1 of the Communiqué Serial: IV No: 56 on the Determination and Implementation of Corporate Governance Principles enforced upon its publication in the Official Gazette issue 28158 dated 30 December 2011.

The Committee consists of a minimum of two members. The majority of the Committee members consist of non-executive Board Directors. The head of the Committee is elected from amongst independent Board Directors.

The term of office for the Committee of Early Detection of Risk is, in essence, parallel to that of the Board of Directors.

### Activities

The Committee:

- works to early detect the risks that might endanger the existence, progress and survival of the Company, to ensure implementation of necessary measures and remedies in relation to the identified risks, and to manage the risk;
- presents an assessment of the situation in its bimonthly report to the Board of Directors, pointing at the perils, if any, and indicating the remedies. The report is also sent to the statutory auditor;
- reviews the risk management systems at least on an annual basis.

# AN ASSESSMENT OF THE OPERATION OF THE INDEPENDENT AUDIT FIRM IN 2012 ACTIVITY PERIOD VIA THE AUDIT COMMITTEE

### Formation and Independence of the Independent (External) Audit Firm

Periodic financial statements and their footnotes are prepared in a manner to represent the actual financial status and within the framework of existing legislation and insurance business accounting standards. They are subjected to independent auditing and publicly disclosed at time intervals stipulated by the legislation.

The independent audit firm we work with is alternated at certain intervals, and an independent audit firm is selected for a maximum of 7 fiscal years for regular and/or special audit. At least two years are allowed to pass before re-signing a regular and/or special audit contract with the same independent audit firm.

External auditing of our Company is conducted in a fully independent manner, and the external auditor performs the relevant tasks adhering strictly to the principles of accuracy, professional integrity and straightforwardness, without being involved in any conflicts of interests that might restrict its independence. The external auditor auditing our Company acts independently and also refrains from any activity that might lead third parties to doubt its independence.

No service is obtained, directly or indirectly from the firms we obtain independent audit service, save for the audit service itself, and no fees are paid to these firms, apart from the reasonable audit fee at current market conditions.

The factors that contribute to the independence of the firms we obtain independent audit service from are the existence of our Audit Committee, the efficient accounting and internal audit system in place at the Company, and strongly established ethical rules attaching importance to correct public disclosures.

Independent conduct of the external auditing of our Company testifies to the accuracy and veracity of our financial statements in the face of the public, and is perceived as guarantee by our Shareholders. The independent opinion of the external auditor further strengthens our Company's corporate image in that they enhance the reliability of our financial statements. Having made it a principle to undertake public disclosure and to assure transparency in line with its ethical values, our Company earns the trust of its investors by giving importance to independence of the external auditor, and therefore, aims to serve the development of national economy by contributing to accumulation of capital.

Mehmet Rasgelener
Board Director and Member of the
Audit Committee

Prof. Dr. Turkay Berksoy
Board Director and Member of the
Audit Committee

# HUMAN RESOURCES PRACTICES

## HUMAN RESOURCES PRACTICES

### Human Resources Policy:

Our Company is proud to be the first national insurance company in Turkey, established in 1925 at the directives of Mustafa Kemal Atatürk. Ever since its establishment, our Company has continuously grown and developed and has been recognized and acknowledged as the grande école of the Turkish insurance industry.

Utmost importance is given to our employees as they are the ones to undertake the biggest duty in carrying out our Company's key policies. For this reason, the primary goal of our human resources policies and practices is to identify our Company's needs for personnel in line with its objectives and strategies and assist the creation of human resources that are open to change and are focused on continuous success by recruiting high-quality people, motivating them, evaluating their performance, and encouraging interaction and communication among individuals and groups.

### Career Development:

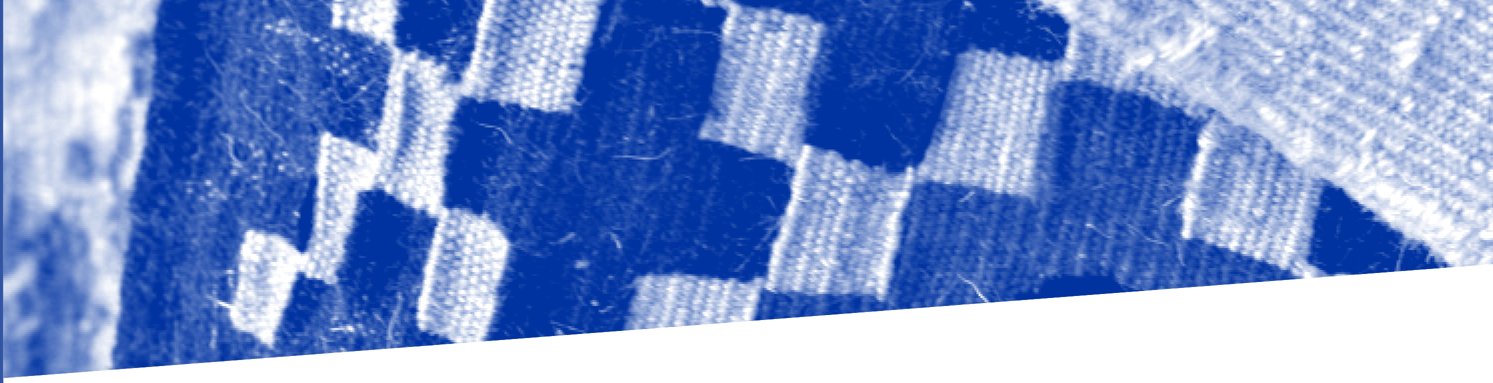
Various career paths within the frame of job families are available at the Company. Employees recruited into any job family and level have the opportunity to advance to senior management positions in the Company.

Our Company's human resources strategy is defined as "Creating the organizational climate conducive to promoting creativity and innovation directed at ensuring customer satisfaction, and establishing a culture of superior performance supporting employees' development. In keeping with this strategy, employees successfully completing the training and development plans designed for the relative job families can advance to a higher level, if they display the performance and capabilities required for the relevant level in the predetermined time.

When rising to the specialist position, which is the midpoint for all of our career paths, employees take the promotion exam that differs according to the job families and positions, and thus, choose between pursuing their careers as a manager or a specialist. The implementation that assesses managerial competencies offers dual career paths to our employees, which gives the option of advancing as a manager or a specialist in the relevant field. To support their development, a number of training opportunities are provided to our employees who join us and become a member of our team in line with the competencies they need to acquire to further their careers, as well as their existing skills.

### Performance Management:

Our employees are evaluated twice a year in line with specific performance criteria. The content of such evaluation varies depending on the competence requirements on the basis of job families. On the basis of the results of these performance evaluations, an employee's training needs are identified and a career plan is developed.



### Job Guarantee:

Our employees enjoy a substantial degree of job guarantee within the framework of unionization composed by the Union and our Company.

### Compensation Policy

Our employees' salaries are adjusted in accordance with the terms of a collective bargaining agreement that is renewed every two years and with annual raises based on current conditions. Employees also receive four bonuses a year, each equal to their one-month salary, as well as half pay on religious holidays.

In addition to their salaries and bonuses, employees receive extensive fringe benefits as well.

### Social Benefits

Our Company's employees are entitled to a variety of social rights and benefits in keeping with current conditions. The healthcare costs of our employees and their dependant family members are covered by our Company under its Healthcare Assistance Regulations. All our personnel are able to fulfill all their healthcare needs free of charge through the Company's outsourced healthcare system. Employees are provided with free transportation services to and from work and with lunches as well.

### Retirement Benefits

Our employees are covered by two private pension funds that have been set up in accordance with the Company's special status. The pensions paid by these funds enable former employees to enjoy a good standard of living during their retirement years.

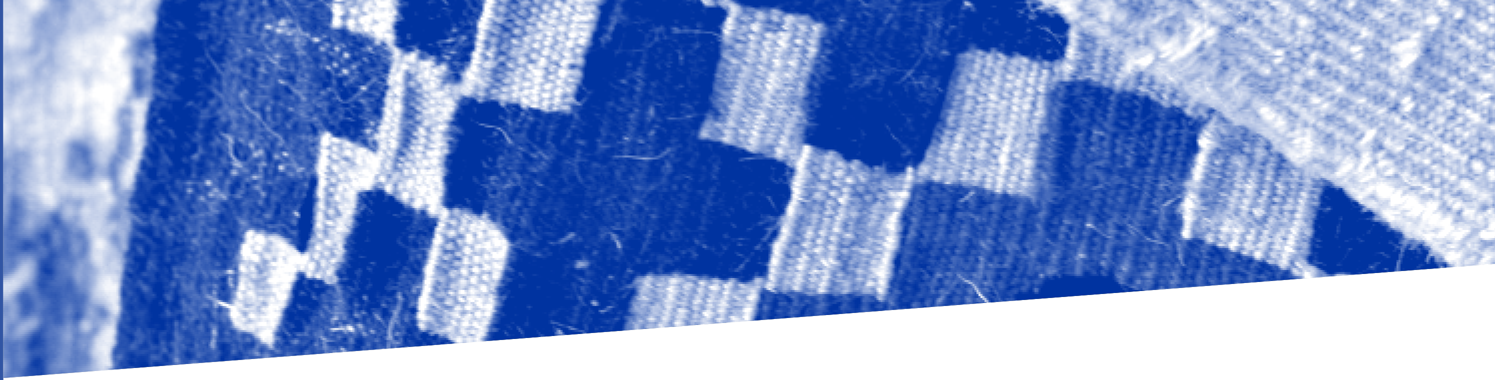
### Training

Competency-based training programs and technical and professional trainings required by our employees' jobs are provided in line with their career progression plans.

Training has special importance at Anadolu Sigorta owing to the fact that our Company is an organization that fills managerial positions from within. Therefore, orientation program and professional training provided to new-hires are followed by necessary planning for improving their managerial skills, thereby extending the necessary support to our employees.

## ANADOLU ANONİM TÜRK SİGORTA ŞİRKETİ
## AGENDA OF THE ANNUAL GENERAL ASSEMBLY CONVENED ON 27 MARCH 2013

1. Election of the Presiding Board and authorization of the Presiding Board to sign the minutes of the Annual General Assembly
2. Presentation of and discussion on the Board of Directors' Activity Report, Statutory Auditors' Report, and Independent Audit Report for 2012 fiscal year
3. Review and ratification of 2012 financial statements
4. Individual acquittal of the Board Directors and statutory auditors
5. Presentation of information on dividend distribution policy; resolution related to dividend distribution,
6. Provided that necessary approvals are received from the relevant governmental authorities pursuant to the provisions of the Turkish Commercial Code no 6102, laying down the amendments to the Company's articles of association for the approval of the General Assembly,
7. Presenting the General Assembly Bylaws, developed pursuant to Article 419 of the Turkish Commercial Code, for the approval of the General Assembly,
8. Approval of the memberships of individuals elected, as per Article 363 of the Turkish Commercial Code, to the seats vacated during the reporting period on the Board of Directors,
9. Presenting the changes in statutory auditors during the reporting period to the General Assembly,
10. Election of the Board Directors and determination of their terms of office,
11. Authorizing the individuals stated in applicable legislation to be engaged in the matters specified in Articles 395 and 396 of the Turkish Commercial Code,
12. Determination of remuneration for the members of the Board of Directors,
13. Deciding on the independent audit firm,
14. Presentation of information on the donations and grants made during the reporting period.



# SUMMARY OF STATUTORY AUDITORS' REPORT

TO THE GENERAL ASSEMBLY OF THE SHAREHOLDERS OF
ANADOLU ANONİM TÜRK SİGORTA ŞİRKETİ

ORTAKLIĞIN;

| | |
|---|---|
| Company Name:: | Anadolu Anonim Türk Sigorta Şirketi |
| Head Office: | İstanbul |
| Capital: | TL 500,000,000. |
| Field of Operation: | Insurance |

| | |
|---|---|
| -Statutory auditors' names, surnames, term of office, and nature of association with the company: | Ethem Eliaçık<br>Kubilay Aykol<br>Zeki Davut (until 28.08.2012)<br>Canan Yılmaz (from 28.08.2012)<br>Auditors are neither a shareholder nor an employee. |
| -Number of Board of Directors meetings attended and Board of Auditors meetings held: | The auditors attended all the monthly Board of Directors meetings. |
| -Scope, dates and outcome of the examination of Company accounts, books and records: | As a result of the examination of accounts, books and records conducted every three months (January, April, July and October), no irregularities were established. |
| | Results of cash counts : 4<br>Dates of cash counts<br>31.03.2012: TL 77,821<br>30.06.2012: TL 55,658<br>30.09.2012: TL 49,737<br>31.12.2012: TL 59,000 |
| | As a result of examinations conducted subsequent to monthly Board of Directors meetings, no irregularities were established. |
| -Complaints or irregularities brought to the auditors' attention and actions taken: | None received. |

We have audited the accounts and transactions of Anadolu Anonim Türk Sigorta Şirketi for the period between 01 January 2012 and 31 December 2012 with respect to their compliance with the Turkish Commercial Code, the Company's articles of association, other applicable legislation and with generally accepted accounting principles and standards.

In our opinion, the attached balance sheet drawn up on 31 December 2012, the contents of which we acknowledge, fairly and accurately presents the Company's financial status on the date, and the income statement for the period 01 January 2012 – 31 December 2012 fairly and accurately presents the operating results for the period. The profit distribution proposal was also found to conform to the laws and the Company's articles of association.

We propose that the balance sheet and the statement of income be approved and that the members of the Board of Directors be acquitted of their fiduciary responsibilities for the accounts of 2012.

Ethem Eliaçık
Auditor

Kubilay Aykol
Auditor

Canan Yılmaz
Auditor

## 2012 ANNUAL REPORT COMPLIANCE STATEMENT

Our Company's 2012 Annual Report has been drawn up within the frame of the principles and procedures set forth in the Ministry of Customs and Trade Regulation on the Minimum Contents of Annual Activity Reports of Companies, which went into force upon its publication in the Official Gazette issue 28395 dated 28 August 2012, and in view of the principles set out in the Regulation on the Financial Structures of Insurance, Reinsurance and Pension Companies, which went into force upon its publication in the Official Gazette issue 26606 dated 7 August 2007.

| | | | |
|---|---|---|---|
| Murat Tetik<br>Accounting and<br>Financial Affairs | Fatih Gören<br>Deputy Chief<br>Executive Officer | Musa Ülken<br>Chief Executive | Caner Çimenbiçer<br>Chairman & Managing<br>Director |

ANADOLU ANONİM TÜRK SİGORTA ŞİRKETİ

# DETAILED INCOME STATEMENT

| | Accident | Illness-Health | Motor Vehicles | Aircrafts | Watercrafts |
|---|---|---|---|---|---|
| I-TECHNICAL PART | | | | | |
| A- Non-Life Technical Income | 48,243,280 | 192,905,347 | 701,446,174 | 4,249,697 | 27,171,530 |
| 1- Earned Premiums (Net of Reinsurer Share) | 41,758,253 | 184,624,095 | 688,427,313 | 3,957,450 | 24,530,932 |
| 1-1. Premiums (Net of Reinsurer Share) | 42,243,503 | 193,566,866 | 701,477,765 | 3,583,298 | 23,404,856 |
| 1.2- Change in Unearned Premium Provisions (Net of Reinsurers Shares and Reserves Carried Forward) (+/-) | -896,533 | -8,942,771 | -13,050,453 | 374,152 | 1,126,076 |
| 1.3- Changes in Unexpired Risk Reserves (Net of Reinsurer Share and Reserves Carried Forward)(+/-) | 18,904 | 0 | 0 | 0 | 0 |
| 1.4- Changes in Ongoing Risk Reserves (Net of Reinsurer Share and Reserves Carried Forward)(+/-) | 392,379 | 0 | 0 | 0 | 0 |
| 2- Investment Income Transfered from Non-Technical Divisions | 6,479,371 | 8,187,542 | 26,057,002 | 292,246 | 2,695,346 |
| 3- Other Technical Income | 5,656 | 93,710 | -13,038,140 | 0 | -54,747 |
| B- Non-Life Technical Expense (-) | -39,013,006 | -179,051,714 | -789,035,832 | 1,065,555 | -17,934,666 |
| 1- Realized Claims (Net of Reinsurer Share) | -17,321,835 | -136,621,822 | -594,196,282 | 1,599,605 | -15,978,422 |
| 1.1- Claims Paid (Net of Reinsurer Share) | -13,330,145 | -156,438,549 | -583,316,213 | -2,258,040 | -11,182,183 |
| 1.2- Changes in Outstanding Claims Provisions (Net of Reinsurer Share and Reserves Carried Forward) (+/-) | -3,991,690 | 19,816,727 | -10,880,069 | 3,857,646 | -4,796,239 |
| 2- Changes in Other Technical Reserves (Net of Reinsurer Share and Reserves Carried Forward) (+/-) | -842,640 | 0 | -1,698,015 | 0 | 0 |
| 3- Operating Expenses (-) | -20,824,650 | -42,429,892 | -193,141,535 | -534,050 | -1,956,244 |
| 4- Other Technical Expenses | -23,881 | 0 | 0 | 0 | 0 |
| C- Non Life Technical Profit (A-B) | 9,230,275 | 13,853,633 | -87,589,657 | 5,315,252 | 9,236,864 |
| | | | | | |
| II- NON TECHNICAL PART | | | | | |
| C- Non Life Technical Profit (A-B) | | | | | |
| J- Total Technical Profit (C) | | | | | |
| K- Investment Income | | | | | |
| 1- Income from Financial Investments | | | | | |
| 2- Income from Sales of Financial Assets | | | | | |
| 3- Revaluation of Financial Assets | | | | | |
| 4- Foreign Exchange Gains | | | | | |
| 5- Dividend Income from Affiliates | | | | | |
| 6- Income form Subsidiaries and Joint Ventures | | | | | |
| 7- Real Estate Income | | | | | |
| 8- Income from Derivative Instruments | | | | | |
| 9- Other Investments | | | | | |
| 10- Investment Income transferred from Life Technical Division | | | | | |
| L- Investment Expenses (-) | | | | | |
| 1- Investment Management Expenses (including interest) (-) | | | | | |
| 2- Valuation Allowance of Investments (-) | | | | | |
| 3- Losses On Sales of Investments (-) | | | | | |
| 4- Investment Income Transferred to Non - Life Technical Division (-) | | | | | |
| 5- Losses from Derivative Instruments (-) | | | | | |
| 6- Foreign Exchange Losses (-) | | | | | |
| 7- Depreciation Expenses (-) | | | | | |
| 8- Other Investment Expenses (-) | | | | | |
| M- Income and Expenses (+/-) | | | | | |
| 1- Reserves (Provisions) Account (+/-) | | | | | |
| 2- Rediscount Account (+/-) | | | | | |
| 3- Mandatory Earthquake Insurance Account (+/-) | | | | | |
| 4- Inflation Adjustment Account (+/-) | | | | | |
| 5- Deferred Tax Asset Accounts (+/-) | | | | | |
| 6- Deferred Tax Liability Expense (+/-) | | | | | |
| 7- Other Income and Revenues | | | | | |
| 8- Other Expense and Losses (-) | | | | | |
| 9- Prior Period Income | | | | | |
| 10- Prior Period Losses (-) | | | | | |
| N- Net Profit / (Loss) | | | | | |
| 1- Profit /(Loss) Before Tax | | | | | |
| 2- Taxes Provisions (-) | | | | | |
| 3- Net Profit (Loss) after Tax | | | | | |
| 4- Inflation Adjustment Account (+/-) | | | | | |

# DETAILED INCOME STATEMENT

| Marine | Fire and Natural Disasters | General Losses | Motor Vehicles Liability | Aircraft Liability | General Liability | Credit | Financial Losses | Legal Protection | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | |
| 35,340,161 | 148,442,974 | 101,565,697 | 462,747,828 | 2,899,290 | 56,309,134 | 3,499,678 | 46,445 | 9,553,639 | 1,794,420,873 |
| 32,363,552 | 129,969,873 | 93,257,080 | 424,389,110 | 2,367,110 | 47,221,850 | 2,315,296 | 46,443 | 7,763,746 | 1,682,992,104 |
| 33,180,809 | 150,090,529 | 90,614,347 | 431,743,062 | 2,463,545 | 52,999,551 | 1,885,979 | 1,136,797 | 8,197,690 | 1,736,588,598 |
| -817,257 | -20,120,656 | -2,722,949 | -26,300,958 | -96,435 | -2,971,438 | 992,803 | -479,854 | -433,944 | -74,340,218 |
| 0 | 0 | 0 | 6,101,878 | 0 | 0 | 0 | 0 | 0 | 6,120,782 |
| 0 | 0 | 5,365,682 | 12,845,128 | 0 | -2,806,263 | -563,485 | -610,500 | 0 | 14,622,941 |
| 4,543,116 | 15,230,606 | 8,296,502 | 36,364,782 | 532,180 | 8,579,486 | 3,015 | 0 | 1,789,889 | 119,051,082 |
| -1,566,507 | 3,242,496 | 12,116 | 1,993,936 | 1 | 507,799 | 1,181,366 | 2 | 3 | -7,622,313 |
| -22,476,955 | -143,215,654 | -81,644,317 | -530,612,560 | -1,160,356 | -55,416,608 | -5,814,830 | -1,129,308 | -1,480,417 | -1,866,920,668 |
| -12,646,161 | -90,044,275 | -53,561,370 | -395,812,681 | -756,503 | -45,040,464 | -5,086,470 | -1,442,063 | -107,583 | -1,367,016,325 |
| -12,578,992 | -81,023,795 | -52,991,925 | -310,527,054 | -50,253 | -14,117,463 | -4,242,409 | -1,188,522 | -81,019 | -1,243,326,562 |
| -67,170 | -9,020,480 | -569,445 | -85,285,627 | -706,250 | -30,923,000 | -844,061 | -253,541 | -26,564 | -123,689,763 |
| 0 | -8,239,025 | -632,207 | 0 | 0 | 0 | -226,317 | 0 | 0 | -11,638,204 |
| -9,830,794 | -44,932,354 | -27,450,740 | -131,080,316 | -403,854 | -10,376,145 | -502,044 | 312,755 | -1,372,834 | -484,522,695 |
| 0 | 0 | 0 | -3,719,563 | 0 | 0 | 0 | 0 | 0 | -3,743,444 |
| 12,863,206 | 5,227,320 | 19,921,380 | -67,864,731 | 1,738,934 | 892,526 | -2,315,153 | -1,082,863 | 8,073,222 | -72,499,795 |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | -72,499,795 |
| | | | | | | | | | -72,499,795 |
| | | | | | | | | | 154,411,124 |
| | | | | | | | | | 86,600,903 |
| | | | | | | | | | 29,123,033 |
| | | | | | | | | | 17,546,543 |
| | | | | | | | | | 11,312,773 |
| | | | | | | | | | 8,000,000 |
| | | | | | | | | | 0 |
| | | | | | | | | | 1,509,568 |
| | | | | | | | | | 293,358 |
| | | | | | | | | | 24,948 |
| | | | | | | | | | 0 |
| | | | | | | | | | -154,270,710 |
| | | | | | | | | | -195,000 |
| | | | | | | | | | -4,837,314 |
| | | | | | | | | | -5,218,236 |
| | | | | | | | | | -119,051,082 |
| | | | | | | | | | -311,150 |
| | | | | | | | | | -16,217,606 |
| | | | | | | | | | -8,440,322 |
| | | | | | | | | | 0 |
| | | | | | | | | | 8,378,248 |
| | | | | | | | | | -8,335,228 |
| | | | | | | | | | -576,534 |
| | | | | | | | | | 0 |
| | | | | | | | | | 0 |
| | | | | | | | | | 17,011,542 |
| | | | | | | | | | 0 |
| | | | | | | | | | 645,353 |
| | | | | | | | | | -366,885 |
| | | | | | | | | | 0 |
| | | | | | | | | | 0 |
| | | | | | | | | | -63,981,132 |
| | | | | | | | | | -63,981,132 |
| | | | | | | | | | 0 |
| | | | | | | | | | -63,981,132 |
| | | | | | | | | | 0 |

ANADOLU ANONİM TÜRK SİGORTA ŞİRKETİ

# 31 DECEMBER 2012
# UNCONSOLIDATED FINANCIAL STATEMENTS
# TOGETHER WITH INDEPENDENT AUDITORS' REPORT THEREON

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

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

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

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Anadolu Anonim Türk Sigorta Şirketi

*Introduction*

We have audited the accompanying unconsolidated balance sheet of Anadolu Anonim Türk Sigorta Şirketi ("the Company") as at 31 December 2012 and the related unconsolidated statement of income, unconsolidated statement of changes in equity and unconsolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

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

*Independent Auditors' Responsibility*

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

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

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

*Basis for Qualified Opinion*

As explained in Note 17, the accompanying unconsolidated financial statements included a general provision amounting to TL 7,702,761 provided by the Company management considering the circumstances which may arise from any changes in economy or market conditions recognized as expense in the prior periods. The total amount had been expensed in previous years' financial statements.

*Qualified Opinion*

In our opinion, except for the effect on the unconsolidated financial statements of the matter described in the basis for qualified opinion paragraph above, nothing has come to our attention that causes us to believe that the accompanying unconsolidated financial statements give a true and fair view of the unconsolidated financial position of Anadolu Anonim Türk Sigorta Şirketi as at 31 December 2012, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with the accounting principles and standards (see *Note 2*) in force as per the insurance legislation.

Istanbul, 28 February 2013

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik AŞ

Murat Alsan, Certified Public Accountant
*Partner*

Additional paragraph for convenience translation to English:

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

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

Istanbul, 28 February 2013

Musa ÜLKEN
Member of Board of Directors,
Chief Executive Officer

Fatih GÖREN
Executive Vice
President of Finance

Murat TETİK
Accounting and
Reporting Manager

Ethem ELİAÇIK
Statutory Auditor

Kubilay AYKOL
Statutory Auditor

Canan YILMAZ
Statutory Auditor

Taylan MATKAP
Actuary

ANADOLU ANONİM TÜRK SİGORTA ŞİRKETİ

# UNCONSOLIDATED BALANCE SHEET
# AS AT 31 DECEMBER 2012

(CURRENCY: TURKISH LIRA (TL))

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

| ASSETS | | | |
|---|---|---|---|
| I- Current Assets | Note | Audited Current Period 31 December 2012 | Audited Current Period 31 December 2011 |
| A- Cash and Cash Equivalents | 14 | 968,521,375 | 911,631,717 |
| 1- Cash | 14 | 59,000 | 61,089 |
| 2- Cheques Received | | -- | -- |
| 3- Banks | 14 | 810,515,425 | 691,318,942 |
| 4- Cheques Given and Payment Orders | 14 | (1,104,472) | (1,450,675) |
| 5- Bank Guaranteed Credit Card Receivables with Maturities 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 | 355,422,292 | 335,903,255 |
| 1- Available-for-Sale Financial Assets | 11 | 224,035,917 | 164,631,610 |
| 2- Held to Maturity Investments | 11 | 89,590,740 | 85,608,329 |
| 3- Financial Assets Held for Trading | 11 | 47,593,247 | 91,460,928 |
| 4- Loans and Receivables | | -- | -- |
| 5- Provision for Loans and Receivables | | -- | -- |
| 6- Financial Investments with Risks on Saving Life 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 | 646,879,957 | 553,528,183 |
| 1- Receivables from Insurance Operations | 12 | 603,166,176 | 511,613,696 |
| 2- Provision for Receivables from Insurance Operations | 2.21,12 | (9,137,211) | (4,649,888) |
| 3- Receivables from Reinsurance Operations | 12 | 48,944,928 | 43,504,762 |
| 4- Provision for Receivables from Reinsurance Operations | | -- | -- |
| 5- Cash Deposited to Insurance and Reinsurance Companies | 12 | 3,906,064 | 3,059,613 |
| 6- Loans to the Policyholders | | -- | -- |
| 7- Provision for Loans to the Policyholders | | -- | -- |
| 8- Receivables from Individual Pension Operations | | -- | -- |
| 9- Doubtful Receivables from Main Operations | 12 | 87,996,612 | 82,451,564 |
| 10- Provision for Doubtful Receivables from Main Operations | 12 | (87,996,612) | (82,451,564) |
| 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 | 2,195,501 | 1,869,978 |
| 1- Finance Lease Receivables | | -- | -- |
| 2- Unearned Finance Lease Interest Income | | -- | -- |
| 3- Deposits and Guarantees Given | | 41,325 | 16,857 |
| 4- Other Miscellaneous Receivables | | 2,154,176 | 1,853,121 |
| 5- Rediscount on Other Miscellaneous Receivables | | -- | -- |
| 6- Other Doubtful Receivables | | -- | -- |
| 7- Provision for Other Doubtful Receivables | | -- | -- |
| F- Prepaid Expenses and Income Accruals | | 165,158,324 | 167,176,361 |
| 1- Prepaid Expenses | 17 | 162,793,013 | 161,112,385 |
| 2- Accrued Interest and Rent Income | | -- | -- |
| 3- Income Accruals | 10,12 | 2,365,311 | -- |
| 4- Other Prepaid Expenses | | -- | 6,063,976 |
| G- Other Current Assets | | 11,993,417 | 9,474,843 |
| 1- Stocks to be Used in the Following Months | | 723,902 | 506,047 |
| 2- Prepaid Taxes and Funds | 19 | 10,640,156 | 7,938,909 |
| 3- Deferred Tax Assets | | -- | -- |
| 4- Job Advances | 12 | 74,516 | 36,198 |
| 5- Advances Given to Personnel | 12 | 35,685 | 10,857 |
| 6- Inventory Count Differences | | -- | -- |
| 7- Other Miscellaneous Current Assets | 12 | 519,158 | 982,832 |
| 8- Provision for Other Current Assets | | -- | -- |
| I- Total Current Assets | | 2,151,616,559 | 1,979,674,567 |

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

ANADOLU ANONİM TÜRK SİGORTA ŞİRKETİ

# UNCONSOLIDATED BALANCE SHEET
# AS AT 31 DECEMBER 2012

(CURRENCY: TURKISH LIRA (TL))

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

| ASSETS | | | |
|---|---|---|---|
| II- Non-Current Assets | Note | Audited Current Period 31 December 2012 | Audited Prior Period 31 December 2011 |
| A- Receivables from Main Operations | | -- | -- |
| 1- Receivables from Insurance Operations | | -- | -- |
| 2- Provision for Receivables from Insurance Operations | | -- | -- |
| 3- Receivables from Reinsurance Operations | | -- | -- |
| 4- Provision for Receivables from Reinsurance Operations | | -- | -- |
| 5- Cash Deposited for Insurance and Reinsurance Companies | | -- | -- |
| 6- Loans to the Policyholders | | -- | -- |
| 7- Provision for Loans to the Policyholders | | -- | -- |
| 8- Receivables from Individual Pension Business | | -- | -- |
| 9- Doubtful Receivables from Main Operations | | -- | -- |
| 10- Provision for Doubtful Receivables from Main Operations | | -- | -- |
| 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 | 252,000,000 | 164,400,000 |
| 1- Investments in Equity Shares | | -- | -- |
| 2- Investments in Associates | 9 | 252,000,000 | 164,400,000 |
| 3- Capital Commitments to Associates | | -- | -- |
| 4- Investments in Subsidiaries | | -- | -- |
| 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 | 14,926,640 | 18,326,963 |
| 1- Investment Properties | 6,7 | 6,982,776 | 6,982,776 |
| 2- Impairment for Investment Properties | | -- | -- |
| 3- Owner Occupied Property | 6 | 6,387,729 | 6,352,187 |
| 4- Machinery and Equipments | 6 | 26,268,960 | 25,657,096 |
| 5- Furniture and Fixtures | 6 | 9,031,553 | 8,977,764 |
| 6- Motor Vehicles | 6 | 1,299,851 | 1,340,671 |
| 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 | (43,249,260) | (39,106,165) |
| 10- Advances Paid for Tangible Assets (Including Construction in Progress) | | -- | -- |
| F- Intangible Assets | 8 | 54,485,705 | 36,130,201 |
| 1- Rights | | -- | -- |
| 2- Goodwill | 8 | 16,250,000 | 16,250,000 |
| 3- Pre-operating Expenses | | -- | -- |
| 4- Research and Development Costs | | -- | -- |
| 5- Other Intangible Assets | 8 | 21,643,962 | 16,560,910 |
| 6- Accumulated Amortization | 8 | (15,125,600) | (11,017,137) |
| 7- Advances Paid for Intangible Assets | 8 | 31,717,343 | 14,336,428 |
| G- Prepaid Expenses and Income Accruals | 17 | 564,809 | 561,891 |
| 1- Prepaid Expenses | 17 | 564,809 | 561,891 |
| 2- Income Accruals | | -- | -- |
| 3- Other Prepaid Expenses and Income Accruals | | -- | -- |
| H- Other Non-Current Assets | 21 | 24,604,121 | 9,922,039 |
| 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 | 24,604,121 | 9,922,039 |
| 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 | | 346,581,275 | 229,341,094 |
| TOTAL ASSETS | | 2,498,197,834 | 2,209,015,661 |

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

ANADOLU ANONİM TÜRK SİGORTA ŞİRKETİ

# UNCONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2012

(CURRENCY: TURKISH LIRA (TL))

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

LIABILITIES

| III- Short-Term Liabilities | Note | Audited Current Period 31 December 2012 | Audited Prior Period 31 December 2011 |
|---|---|---|---|
| A- Financial Liabilities | | -- | -- |
| 1- Borrowings from Financial Institutions | | -- | -- |
| 2- Finance Lease Liabilities | | -- | -- |
| 3- Deferred Leasing Costs | | -- | -- |
| 4- Current Portion of Long Term Debts | | -- | -- |
| 5- Principal Instalments 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 | 198,973,610 | 172,569,477 |
| 1- Payables Arising from Insurance Operations | 19 | 131,649,849 | 134,993,564 |
| 2- Payables Arising from Reinsurance Operations | | -- | -- |
| 3- Cash Deposited by Insurance and Reinsurance Companies | 19 | 3,161,917 | 1,814,418 |
| 4- Payables Arising from Individual Pension Business | | -- | -- |
| 5- Payables Arising from Other Main Operations | 19 | 64,161,844 | 35,761,495 |
| 6- Discount on Payables from Other Main Operations | | -- | -- |
| C- Due to Related Parties | 19 | 15,494 | 15,494 |
| 1- Due to Shareholders | 19 | 15,494 | 15,494 |
| 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 | 36,023,378 | 26,637,751 |
| 1- Deposits and Guarantees Received | | 3,167,035 | 2,517,131 |
| 2- Medical Treatment Payables to Social Security Institution | | 8,092,174 | 6,975,877 |
| 3- Other Miscellaneous Payables | | 24,843,716 | 17,271,570 |
| 4- Discount on Other Miscellaneous Payables | | (79,547) | (126,827) |
| E- Insurance Technical Provisions | 17 | 1,358,582,758 | 1,181,296,501 |
| 1- Reserve for Unearned Premiums - Net | 17 | 865,134,772 | 796,915,337 |
| 2- Reserve for Unexpired Risks - Net | 2.26,17 | 4,097,523 | 18,720,464 |
| 3- Mathematical Provisions - Net | | -- | -- |
| 4- Provision for Outstanding Claims - Net | 17 | 489,350,463 | 365,660,700 |
| 5- Provision for Bonus and Discounts – Net | | -- | -- |
| 6- Other Technical Provisions – Net | | -- | -- |
| F- Provisions for Taxes and Other Similar Obligations | 19 | 16,325,270 | 16,770,948 |
| 1- Taxes and Funds Payable | | 14,939,117 | 15,278,724 |
| 2- Social Security Premiums Payable | | 1,386,153 | 1,492,224 |
| 3- Overdue, Deferred or By Instalment Taxes and Other Liabilities | | -- | -- |
| 4- Other Taxes and Similar Payables | 1 | -- | -- |
| 5- Corporate Tax Payable | | -- | -- |
| 6- Prepaid Taxes and Other Liabilities Regarding Current Period Income | | -- | -- |
| 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 | | 56,367,771 | 48,326,564 |
| 1- Deferred Income | 19 | 34,980,352 | 33,579,034 |
| 2- Expense Accruals | 23 | 21,387,419 | -- |
| 3- Other Deferred Income and Expense Accruals | | -- | 14,747,530 |
| I- Other Short-Term Liabilities | 23 | 849,038 | 722,001 |
| 1- Deferred Tax Liabilities | | -- | -- |
| 2- Inventory Count Differences | | -- | -- |
| 3- Other Various Short-Term Liabilities | 23 | 849,038 | 722,001 |
| III – Total Short-Term Liabilities | | 1,667,137,319 | 1,446,338,736 |

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

ANADOLU ANONİM TÜRK SİGORTA ŞİRKETİ

# UNCONSOLIDATED BALANCE SHEET
# AS AT 31 DECEMBER 2012

(CURRENCY: TURKISH LIRA (TL))

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

| LIABILITIES | | | |
|---|---|---|---|
| IV- Long-Term Liabilities | Note | Audited Current Period 31 December 2012 | Audited Prior Period 31 December 2011 |
| A- Financial Liabilities | | -- | -- |
| 1- Borrowings from Financial Institutions | | -- | -- |
| 2- Finance Lease Liabilities | | -- | -- |
| 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 Main Operations | | -- | -- |
| 1- Payables Arising from Insurance Operations | | -- | -- |
| 2- Payables Arising from Reinsurance Operations | | -- | -- |
| 3- Cash Deposited by Insurance and Reinsurance Companies | | -- | -- |
| 4- Payables Arising from Individual Pension Business | | -- | -- |
| 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- Medical Treatment Payables to Social Security Institution | | 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 | 39,860,010 | 33,635,411 |
| 1- Reserve for Unearned Premiums – Net | | -- | -- |
| 2- Reserve for Unexpired Risks - Net | | -- | -- |
| 3- Mathematical Provisions - Net | | -- | -- |
| 4- Provision for Outstanding Claims - Net | | -- | -- |
| 5- Provision for Bonus and Discounts – Net | | -- | -- |
| 6- Other Technical Provisions – Net | 17 | 39,860,010 | 33,635,411 |
| F-Other Liabilities and Relevant Accruals | | -- | -- |
| 1- Other Liabilities | | -- | -- |
| 2- Overdue, Deferred or By Instalment Taxes and Other Liabilities | | -- | -- |
| 3- Other Liabilities and Expense Accruals | | -- | -- |
| G- Provisions for Other Risks | 23 | 9,856,211 | 7,193,068 |
| 1- Provision for Employee Termination Benefits | 23 | 9,856,211 | 7,193,068 |
| 2- Provision for Pension Fund Deficits | | -- | -- |
| H-Deferred Income and Expense Accruals | | -- | -- |
| 1- Deferred Income | | -- | -- |
| 2- Expense Accruals | | -- | -- |
| 3- Other Deferred Income and Expense Accruals | | -- | -- |
| I- Other Long-Term Liabilities | | -- | -- |
| 1- Deferred Tax Liabilities | | -- | -- |
| 2- Other Long-Term Liabilities | | -- | -- |
| IV- Total Long-Term Liabilities | | 74,699,591 | 57,552,783 |

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

ANADOLU ANONİM TÜRK SİGORTA ŞİRKETİ

# UNCONSOLIDATED BALANCE SHEET
# AS AT 31 DECEMBER 2012

(CURRENCY: TURKISH LIRA (TL))

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

| EQUITY | | | |
|---|---|---|---|
| V- Equity | Note | Audited Current Period 31 December 2012 | Audited Prior Period 31 December 2011 |
| A- Paid in Capital | | 500,000,000 | 500,000,000 |
| 1- (Nominal) Capital | 2.13,15 | 500,000,000 | 500,000,000 |
| 2- Unpaid Capital | | -- | -- |
| 3- Positive Capital Restatement Differences | | -- | -- |
| 4- Negative Capital Restatement Differences | | -- | -- |
| 5- Register in Progress Capital | | -- | -- |
| B- Capital Reserves | 15 | 8,161,541 | 8,081,516 |
| 1- Share Premiums | | -- | -- |
| 2- Cancellation Profits of Equity Shares | | -- | -- |
| 3- Profit on Asset Sales That Will Be Transferred to Capital | | -- | -- |
| 4- Currency Translation Adjustments | | -- | -- |
| 5- Other Capital Reserves | 15 | 8,161,541 | 8,081,516 |
| C- Profit Reserves | | 312,180,515 | 192,973,868 |
| 1- Legal Reserves | 15 | 30,638,111 | 30,438,674 |
| 2- Statutory Reserves | 15 | 6,993,082 | 6,614,152 |
| 3- Extraordinary Reserves | 15 | 18,123,361 | 14,712,995 |
| 4- Special Funds | | -- | -- |
| 5- Revaluation of Financial Assets | 15 | 212,235,915 | 97,018,001 |
| 6- Other Profit Reserves | 15 | 44,190,046 | 44,190,046 |
| D- Retained Earnings | | -- | -- |
| 1- Retained Earnings | | -- | -- |
| E- Accumulated Losses | | -- | -- |
| 1- Accumulated Losses | | -- | -- |
| F-Net Profit/(Loss) for the Period | | (63,981,132) | 4,068,758 |
| 1- Net Profit for the Period | | -- | 3,988,733 |
| 2- Net Loss for the Period | | (63,981,132) | -- |
| 3- Profit not Available for Distribution | | -- | 80,025 |
| V- Total Equity | | 756,360,924 | 705,124,142 |
| TOTAL EQUITY AND LIABILITIES | | 2,498,197,834 | 2,209,015,661 |

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

ANADOLU ANONİM TÜRK SİGORTA ŞİRKETİ

# UNCONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

(CURRENCY: TURKISH LIRA (TL))

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

| I-TECHNICAL SECTION | Note | Audited Current Period 31 December 2012 | Audited Prior Period 31 December 2011 |
|---|---|---|---|
| A- Non-Life Technical Income | | 1,794,420,873 | 1,355,984,632 |
| 1- Earned Premiums (Net of Reinsurer Share) | | 1,682,992,104 | 1,261,383,874 |
| 1.1- Written Premiums (Net of Reinsurer Share) | 17 | 1,736,588,598 | 1,484,649,144 |
| 1.1.1- Written Premiums, gross | 17 | 2,234,633,499 | 1,926,090,486 |
| 1.1.2- Written Premiums, ceded | 10,17 | (454,182,023) | (417,467,198) |
| 1.1.3- Premiums Transferred to Social Security Institutions | | (43,862,878) | (23,974,144) |
| 1.2- Change in Reserve for Unearned Premiums (Net of Reinsurer Shares and Less the Amounts Carried Forward) | 17,29 | (68,219,435) | (210,410,110) |
| 1.2.1- Reserve for Unearned Premiums, gross | 17 | (90,105,007) | (290,046,518) |
| 1.2.2- Reserve for Unearned Premiums, ceded | 17 | 15,764,790 | 65,557,175 |
| 1.2.3 – Reserve for Unearned Premiums, Social Security Institution 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) | 29 | 14,622,941 | (12,855,160) |
| 1.3.1- Reserve for Unexpired Risks, gross | | 22,470,770 | (17,183,652) |
| 1.3.2- Reserve for Unexpired Risks, ceded | | (7,847,829) | 4,328,492 |
| 2- Investment Income - Transferred from Non-Technical Section | | 119,051,082 | 79,355,436 |
| 3- Other Technical Income (Net of Reinsurer Share) | | 2,672,397 | 1,321,606 |
| 3.1- Other Technical Income, gross | | 2,672,397 | 1,321,606 |
| 3.2- Other Technical Income, ceded | | - | - |
| 4- Accrued Salvage and Subrogation Income | | (10,294,710) | 13,923,716 |
| B - Non-Life Technical Expense | | (1,866,920,668) | (1,366,052,985) |
| 1- Incurred Losses (Net of Reinsurer Share) | 17 | (1,367,016,325) | (967,396,321) |
| 1.1- Claims Paid (Net of Reinsurer Share) | 17,29 | (1,243,326,562) | (906,292,416) |
| 1.1.1- Claims Paid, gross | 17 | (1,371,854,564) | (1,018,263,072) |
| 1.1.2- Claims Paid, ceded | 10,17 | 128,528,002 | 111,970,656 |
| 1.2- Change in Provisions for Outstanding Claims (Net of Reinsurer Share and Less the Amounts Carried Forward) | 17,29 | (123,689,763) | (61,103,905) |
| 1.2.1- Change in Provisions for Outstanding Claims, gross | 17 | (154,558,870) | (43,957,568) |
| 1.2.2- Change in Provisions for Outstanding Claims, ceded | 17 | 30,869,107 | (17,146,337) |
| 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 | (11,638,204) | (3,718,596) |
| 4- Operating Expenses | 32 | (484,522,695) | (393,538,852) |
| 5- Change in Mathematical Provisions (Net of Reinsurer Share and Less the Amounts Carried Forward) | | - | - |
| 5.1- Change in Mathematical Provisions, gross | | - | - |
| 5.2 - Change in Mathematical Provisions, ceded | | - | - |
| 6- Change in Other Technical Provisions (Net of Reinsurer and Less the Amounts Carried Forward) | 2.25 | (3,743,444) | (1,399,216) |
| 6.1- Change in Other Technical Provisions, gross | 2.25 | (3,743,444) | (1,399,216) |
| 6.2- Change in Other Technical Provisions, ceded | | - | - |
| C- Net Technical Income-Non-Life (A – B) | | (72,499,795) | (10,068,353) |
| D- Life Technical Income | | -- | -- |
| 1- Earned Premiums (Net of Reinsurer Share) | | -- | -- |
| 1.1- Written Premiums (Net of Reinsurer Share) | | -- | -- |
| 1.1.1- Written Premiums, gross | | -- | -- |
| 1.1.2- Written Premiums, ceded | | -- | -- |
| 1.2- Change in Reserve for Unearned Premiums (Net of Reinsurer Share and Less the Amounts Carried Forward) | | -- | -- |
| 1.2.1- Reserve for Unearned Premiums, gross | | -- | -- |
| 1.2.2- Reserve for Unearned Premiums, ceded | | -- | -- |
| 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 | | -- | -- |
| 3- Unrealized Gains on Investments | | -- | -- |
| 4- Other Technical Income (Net of Reinsurer Share) | | -- | -- |
| 4.1- Other Technical Income. gross | | -- | -- |
| 4.2- Other Technical Income. ceded | | -- | -- |
| 5- Accrued Salvage Income | | -- | -- |

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

ANADOLU ANONİM TÜRK SİGORTA ŞİRKETİ
# UNCONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2012
(CURRENCY: TURKISH LIRA (TL))

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

| I-TECHNICAL SECTION | Note | Audited CurrentPeriod 31 December2012 | Audited PriorPeriod 31 December2011 |
|---|---|---|---|
| E- Life Technical Expense | | -- | -- |
| 1- Incurred Losses (Net of Reinsurer Share) | | -- | -- |
| 1.1- Claims Paid (Net of Reinsurer Share) | | -- | -- |
| 1.1.1- Claims Paid, gross | | -- | -- |
| 1.1.2- Claims Paid, ceded | | -- | -- |
| 1.2- Change in Provisions for Outstanding Claims (Net of Reinsurer Share and Less the Amounts Carried Forward) | | -- | -- |
| 1.2.1- Change in Provisions for Outstanding Claims, gross | | -- | -- |
| 1.2.2- Change in Provisions for Outstanding Claims, ceded | | -- | -- |
| 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 Mathematical Provisions (Net of Reinsurer Share and Less the Amounts Carried Forward) | | -- | -- |
| 3.1- Change in Mathematical Provisions, gross | | -- | -- |
| 3.1.1- Change in Actuarial Mathematical Provisions, gross | | -- | -- |
| 3.1.2- Change in Profit Share Provisions (Provision for Financial Investments with Risks on Saving Life Policyholders), gross | | -- | -- |
| 3.2- Change in Mathematical Provisions, ceded | | -- | -- |
| 3.2.1- Change in Actuarial Mathematical Provisions, ceded | | -- | -- |
| 3.2.2- Change in Profit Share Provisions (Provision for Financial Investments with Risks on Saving Life Policyholders). ceded | | -- | -- |
| 4- Change in Provisions for Policies Investment Risks of Which Belongs to Life Insurance Policyholders (Net of Reinsurer Share and Less the Amounts Carried Forward) | | -- | -- |
| 5- Change in Other Technical Reserves (Net of Reinsurer Share and Less the Amounts Carried Forward) | | -- | -- |
| 6- Operating Expenses | | -- | -- |
| 7- Investment Expenses | | -- | -- |
| 8- Unrealized Losses on Investments | | -- | -- |
| 9- Investment Income Transferred to the Non-Life Technical Section | | -- | -- |
| F- Net Technical Income- Life (D – E) | | -- | -- |
| G- Pension Business Technical Income | | -- | -- |
| 1- Fund Management Income | | -- | -- |
| 2- Management Fee | | -- | -- |
| 3- Entrance Fee Income | | -- | -- |
| 4- Management Expense Charge in case of Suspension | | -- | -- |
| 5- Income from Private Service Charges | | -- | -- |
| 6- Increase in Value of Capital Allowances Given as Advance | | -- | -- |
| 7- Other Technical Expense | | -- | -- |
| H- Pension Business Technical Expense | | -- | -- |
| 1- Fund Management Expense | | -- | -- |
| 2- Decrease in Value of Capital Allowances Given as Advance | | -- | -- |
| 3- Operating Expenses | | -- | -- |
| 4- Other Technical Expenses | | -- | -- |
| I- Net Technical Income - Pension Business (G – H) | | -- | -- |

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

# UNCONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

(CURRENCY: TURKISH LIRA (TL))

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

| II-NON-TECHNICAL SECTION | Note | Audited Current Period 31 December 2012 | Audited Prior Period 31 December 2011 |
|---|---|---|---|
| C- Net Technical Income – Non-Life (A-B) | | (72,499,795) | (10,068,353) |
| F- Net Technical Income – Life (D-E) | | -- | -- |
| I - Net Technical Income – Pension Business (G-H) | | -- | -- |
| J- Total Net Technical Income (C+F+I) | | (72,499,795) | (10,068,353) |
| K- Investment Income | | 154,411,126 | 150,279,536 |
| 1- Income from Financial Assets | 4.2 | 86,600,903 | 76,519,428 |
| 2- Income from Disposal of Financial Assets | 4.2 | 29,123,033 | 16,308,262 |
| 3- Valuation of Financial Assets | 4.2 | 17,546,543 | 6,237,892 |
| 4- Foreign Exchange Gains | 4.2 | 11,312,773 | 29,252,952 |
| 5- Income from Associates | 4.2 | 8,000,000 | 18,000,003 |
| 6- Income from Subsidiaries and Joint Ventures | | - | - |
| 7- Income from Property, Plant and Equipment | | 1,509,568 | 1,415,210 |
| 8- Income from Derivative Transactions | 4.2 | 293,358 | 2,484,025 |
| 9- Other Investments | | 24,948 | 61,764 |
| 10- Income Transferred from Life Section | | - | - |
| L- Investment Expense | | (154,270,710) | (141,443,031) |
| 1- Investment Management Expenses (inc. interest) | 4.2 | (195,000) | - |
| 2- Diminution in Value of Investments | 4.2 | (4,837,314) | (19,967,729) |
| 3- Loss from Disposal of Financial Assets | 4.2 | (5,218,236) | (9,118,734) |
| 4- Investment Income Transferred to Non-Life Technical Section | | (119,051,082) | (79,355,436) |
| 5- Loss from Derivative Transactions | 4.2 | (311,150) | (9,928,921) |
| 6- Foreign Exchange Losses | 4.2 | (16,217,606) | (15,152,414) |
| 7- Depreciation and Amortization Expenses | 6,8 | (8,440,322) | (7,919,797) |
| 8- Other Investment Expenses | | - | - |
| M- Income and Expenses From Other and Extraordinary Operations | | 8,378,247 | 5,300,606 |
| 1- Provisions | 47 | (8,335,228) | (7,536,624) |
| 2- Rediscounts | 47 | (576,534) | 3,283,472 |
| 3- Specified Insurance Accounts | | - | - |
| 4- Monetary Gains and Losses | | - | - |
| 5- Deferred Taxation (Deferred Tax Assets) | 35 | 17,011,542 | 6,368,048 |
| 6- Deferred Taxation (Deferred Tax Liabilities) | | - | - |
| 7- Other Income | | 645,353 | 3,400,087 |
| 8- Other Expenses and Losses | | (366,886) | (214,377) |
| 9- Prior Year's Income | | - | - |
| 10- Prior Year's Expenses and Losses | | - | - |
| N- Net Profit for the Period | | (63,981,132) | 4,068,758 |
| 1- Profit for the Period | | (63,981,132) | 4,068,758 |
| 2- Corporate Tax Provision and Other Fiscal Liabilities | 35 | -- | -- |
| 3- Net Profit for the Period | | (63,981,132) | 4,068,758 |
| 4- Monetary Gains and Losses | | -- | -- |

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

# UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

(CURRENCY: TURKISH LIRA (TL))

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

Audited Statement of Changes in Equity – 30 June 2011

| | Notes | Paid-in Capital | Own Shares of the Company | Revaluation of Financial Assets |
|---|---|---|---|---|
| I - Balance at the end of the previous year - 31 December 2010 | | 500,000,000 | -- | 233,735,003 |
| II - Change in Accounting Standards | | -- | -- | -- |
| III - Restated balances (I+II) - 1 January 2011 | | 500,000,000 | -- | 233,735,003 |
| A- Capital increase (A1+A2) | | -- | -- | -- |
| 1- In cash | | -- | -- | -- |
| 2- From reserves | | -- | -- | -- |
| B- Purchase of own shares | | -- | -- | -- |
| C- Gains or losses that are not included in the statement of income | | -- | -- | -- |
| D- Change in the value of financial assets | 11,15 | -- | -- | (136,717,002) |
| E- Currency translation adjustments | | -- | -- | -- |
| F- Other gains or losses | | -- | -- | -- |
| G- Inflation adjustment differences | | -- | -- | -- |
| H- Net profit for the period | | -- | -- | -- |
| I - Dividends paid | 2.23 | -- | -- | -- |
| J - Transfers to reserves | 15 | -- | -- | -- |
| II - Balance at the end of the period - 31 December 2011 | | 500,000,000 | -- | 97,018,001 |

Audited Statement of Changes in Equity – 31 December 2012

| | Notes | Paid-in Capital | Own Shares of the Company | Revaluation of Financial Assets |
|---|---|---|---|---|
| I - Balance at the end of the previous year - 31 December 2011 | | 500,000,000 | -- | 97,018,001 |
| II - Change in Accounting Standards | | -- | -- | -- |
| III - Restated balances (I+II) -1 January 2012 | | 500,000,000 | -- | 97,018,001 |
| A- Capital increase (A1+A2) | | -- | -- | -- |
| 1- In cash | | -- | -- | -- |
| 2- From reserves | | -- | -- | -- |
| B- Purchase of own shares | | -- | -- | -- |
| C- Gains or losses that are not included in the statement of income | | -- | -- | -- |
| D- Change in the value of financial assets | 11,15 | -- | -- | 115,217,914 |
| E- Currency translation adjustments | | -- | -- | -- |
| F- Other gains or losses | | -- | -- | -- |
| G- Inflation adjustment differences | | -- | -- | -- |
| H- Net profit for the period | | -- | -- | -- |
| I - Dividends paid | 2.23 | -- | -- | -- |
| J - Transfers to reserves | 15 | -- | -- | -- |
| IV - Balance at the end of the period - 31 December 2012 | | 500,000,000 | -- | 212,235,915 |

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

| Inflation Adjustments | Currency Translation Adjustments | Legal Reserves | Statutory Reserves | Other Reserves and Retained Earnings | Net Profit for the Year | Retained Earnings | Total |
|---|---|---|---|---|---|---|---|
| -- | -- | 28,965,434 | 4,110,050 | 44,190,046 | 37,546,317 | -- | 848,546,850 |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | 28,965,434 | 4,110,050 | 44,190,046 | 37,546,317 | -- | 848,546,850 |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | - | - | - | -- | -- | -- |
| -- | -- | - | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | (136,717,002) |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | 4,068,758 | -- | 4,068,758 |
| -- | -- | -- | -- | -- | (10,774,464) | -- | (10,774,464) |
| -- | -- | 1,473,240 | 2,504,102 | 22,794,511 | (26,771,853) | -- | -- |
| -- | -- | 30,438,674 | 6,614,152 | 66,984,557 | 4,068,758 | -- | 705,124,142 |

| Inflation Adjustments | Currency Translation Adjustments | Legal Reserves | Statutory Reserves | Other Reserves and Retained Earnings | Net Profit for the Year | Retained Earnings | Total |
|---|---|---|---|---|---|---|---|
| -- | -- | 30,438,674 | 6,614,152 | 66,984,557 | 4,068,758 | -- | 705,124,142 |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | 30,438,674 | 6,614,152 | 66,984,557 | 4,068,758 | -- | 705,124,142 |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | 115,217,914 |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | (63,981,132) | -- | (63,981,132) |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | 199,437 | 378,930 | 3,490,391 | (4,068,758) | -- | -- |
| -- | -- | 30,638,111 | 6,993,082 | 70,474,948 | (63,981,132) | -- | 756,360,924 |

# UNCONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

(CURRENCY: TURKISH LIRA (TL))

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

| | Note | Audited Current Period 31 December 2012 | Audited Prior Period 31 December 2011 |
|---|---|---|---|
| A - Cash flows from operating activities | | | |
| 1- Cash provided from insurance activities | | 2,365,833,897 | 2,017,042,912 |
| 2- Cash provided from reinsurance activities | | -- | 1,659,041 |
| 3- Cash provided from individual pension business | | -- | -- |
| 4- Cash used in insurance activities | | (2,444,553,481) | (1,931,935,038) |
| 5- Cash used in reinsurance activities | | (6,286,617) | (8,724,373) |
| 6- Cash used in individual pension business | | -- | -- |
| 7- Cash provided by operating activities | | (85,006,201) | 78,042,542 |
| 8- Interest paid | | -- | -- |
| 9- Income taxes paid | 19 | (2,701,247) | (4,245,812) |
| 10- Other cash inflows | | 43,655,931 | 19,682,005 |
| 11- Other cash outflows | | (8,855,353) | 19,088,758 |
| 12-Net cash provided by operating activities | | (52,906,870) | 112,567,493 |
| B - Cash flows from investing activities | | | |
| 1- Proceeds from disposal of tangible assets | | 89,993 | 54,624 |
| 2- Acquisition of tangible assets | 6, 8 | (23,490,999) | (15,726,786) |
| 3- Acquisition of financial assets | 11 | (537,072,037) | (568,896,811) |
| 4- Proceeds from disposal of financial assets | | 529,913,402 | 660,383,282 |
| 5- Interests received | | 152,502,932 | 83,658,139 |
| 6- Dividends received | | 8,000,000 | 9,800,205 |
| 7- Other cash inflows | | - | 33,213,951 |
| 8- Other cash outflows | | (105,949,892) | (277,720,299) |
| 9- Net cash provided by investing activities | | 23,993,399 | (75,233,695) |
| C- Cash flows from financing activities | | | |
| 1- Equity shares issued | | -- | -- |
| 2- Cash provided from loans and borrowings | | -- | -- |
| 3- Finance lease payments | | -- | -- |
| 4- Dividends paid | 38 | -- | (10,774,464) |
| 5- Other cash inflows | | -- | -- |
| 6- Other cash outflows | | -- | -- |
| 7- Net cash used in financing activities | | -- | (10,774,464) |
| D- Effect of exchange rate fluctuations on cash and cash equivalents | | (89,788) | 875,904 |
| E- Net increase in cash and cash equivalents | | (29,003,259) | 27,435,238 |
| F- Cash and cash equivalents at the beginning of the year | 14 | 553,431,748 | 525,996,510 |
| G- Cash and cash equivalents at the end of the year | 14 | 524,428,489 | 553,431,748 |

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

# UNCONSOLIDATED STATEMENT OF PROFIT DISTRIBUTION FOR THE YEAR ENDED 31 DECEMBER 2012

(CURRENCY: TURKISH LIRA (TL))

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

| | Note | Audited Current Period 31 December 2012 (**) | Audited Prior Period 31 December 2011 |
|---|---|---|---|
| I. DISTRIBUTION OF THE PERIOD PROFIT | | | |
| 1.1. PERIOD PROFIT (*) | | (55,790,717) | (1,427,110) |
| 1.2. TAXES AND DUTIES PAYABLE | | -- | -- |
| 1.2.1. Corporate Tax (Income Tax) | | -- | -- |
| 1.2.2. Income Tax Deductions | | -- | -- |
| 1.2.3. Other Taxes and Legal Duties | | -- | -- |
| A. CURRENT PERIOD PROFIT (1.1 - 1.2) | | (55,790,717) | (1,427,110) |
| 1.3. ACCUMULATED LOSSES (-) | | -- | -- |
| 1.4. FIRST LEGAL RESERVES (-) | | -- | 199,437 |
| 1.5. OTHER STATUTORY RESERVES (-) | | -- | -- |
| B. NET PROFIT AVAILABLE FOR DISTRIBUTION [ (A - (1.3 + 1.4 + 1.5) ] | | (55,790,717) | (1,626,547) |
| 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 BOARD OF DIRECTORS (-) | | -- | -- |
| 1.9. SECOND DIVIDEND TO SHAREHOLDERS (-) | | -- | -- |
| 1.9.1. To owners of ordinary shares | | -- | -- |
| 1.9.2. To owners of privileged shares | | -- | -- |
| 1.9.3. To owners of redeemed shares | | -- | -- |
| 1.9.4. To holders profit sharing bonds | | -- | -- |
| 1.9.5. To holders of profit and loss sharing certificates | | -- | -- |
| 1.10. LEGAL RESERVES (-) | | -- | -- |
| 1.11. STATUTORY RESERVES(-) | | -- | (378,930) |
| 1.12. EXTRAORDINARY RESERVES | | -- | (3,410,366) |
| 1.13. OTHER RESERVES | | -- | -- |
| 1.14. SPECIAL FUNDS | | -- | -- |
| II. DISTRIBUTION OF RESERVES | | -- | -- |
| 2.1. APPROPRIATED RESERVES | | -- | -- |
| 2.2. SECOND LEGAL RESERVES (-) | | -- | -- |
| 2.3. DIVIDENDS TO SHAREHOLDERS (-) | | -- | -- |
| 2.3.1. To owners of ordinary shares | | -- | -- |
| 2.3.2. To owners of privileged shares | | -- | -- |
| 2.3.3. To owners of redeemed shares | | -- | -- |
| 2.3.4. To holders of profit sharing bonds | | -- | -- |
| 2.3.5. To holders of profit and loss sharing certificates | | -- | -- |
| 2.4. DIVIDENDS TO PERSONNEL (-) | | -- | -- |
| 2.5. DIVIDENDS TO BOARD OF DIRECTORS (-) | | -- | -- |
| III. EARNINGS PER SHARE | | -- | -- |
| 3.1. TO OWNERS OF ORDINARY SHARES | | -- | -- |
| 3.2. TO OWNERS OF ORDINARY SHARES (%) | | -- | -- |
| 3.3. TO OWNERS OF PRIVILEGED SHARES | | -- | -- |
| 3.4. TO OWNERS OF PRIVILEGED SHARES (%) | | -- | -- |
| IV. DIVIDEND PER SHARE | | -- | -- |
| 4.1. TO OWNERS OF ORDINARY SHARES | | -- | -- |
| 4.2. TO OWNERS OF ORDINARY SHARES (%) | | -- | -- |
| 4.3. TO OWNERS OF PRIVILEGED SHARES | | -- | -- |
| 4.4. TO OWNERS OF PRIVILEGED SHARES (%) | | -- | -- |

(*)Consolidated current year profit is used for profit distribution as per the "Guidance on profit distribution table" issued by the Capital Market Board weekly bulletin numbered 2010/4. 75% of the gain on sale of investments in equity amounting to TL 80,025 to be transferred to the share capital is not taken into consideration for the year ended 31 December 2011 per Corporate Tax Law article 5 and recorded as "Profit not Available for Distribution" under equity.

(**)As of the report date, the General Assembly Meeting has not been held; therefore, only distributable net profit is presented in the profit distribution table above.

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

(CURRENCY: TURKISH LIRA (TL))

## 1 General Information

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

The shareholding structure of Anadolu Anonim Türk Sigorta Şirketi ("the Company") is presented below. As at 31 December 2012, the shareholder having indirect control over the shares of Anadolu Anonim Türk Sigorta Şirketi ("the Company") is Türkiye İş Bankası A.Ş. ("İş Bankası").

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| Name | Shareholding Amount (TL) | Shareholding Rate (%) | Shareholding Amount (TL) | Shareholding Rate (%) |
| Milli Reasürans T.A.Ş. | 286,550,106 | 57.31 | 286,550,106 | 57.31 |
| Other | 213,449,894 | 42.69 | 213,449,894 | 42.69 |
| Paid in Capital | 500,000,000 | 100.00 | 500,000,000 | 100.00 |

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

The Company was registered in Turkey and has the status of 'Incorporated Company'. The address of the Company's registered office is "Büyükdere Caddesi İş Kuleleri Kule 2 Kat: 22-26, 34330 4. Levent, Istanbul. Besides headquarter, the Company has nine regional offices; two of them established in İstanbul and others established in Antalya, İzmir, Samsun, Adana, Ankara, Trabzon and Bursa, and a branch in Turkish Republic of Northern Cyprus.

### 1.3 Business of the Company

The Company 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 2,726 authorized agencies and 78 unathorized agencies (31 December 2011: 2,688 authorized agencies and 68 unathorized agencies) of which 2,804 agencies (31 December 2011: 2,756 authorized).

### 1.4 Description of the main operations of the Company

The Company conducts its operations in accordance with the Insurance Law No.5684 (the "Insurance Law") issued in 14 June 2007 dated and 26552 numbered Official Gazette and the communiqués and other regulations in force issued by the Turkish Treasury based on the Insurance Law. The Company operates in insurance branches as mentioned above *Note 1.3 Business of the Company*.

The Company's shares have been listed on the Istanbul Stock Exchange ("ISE"), In accordance with Article 50(a) in Section VII of the Capital Markets Law, insurance companies have to comply with their own specific laws and regulations in matters of establishment, auditing, supervision/oversight, accounting and financial reporting; therefore, the Company performs its operations accordingly.

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

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Senior level managers | 8 | 10 |
| Directors | 150 | 138 |
| Intermediate directors | 425 | 371 |
| Officers | 114 | 164 |
| Contracted personnel | 218 | 200 |
| Total | 915 | 883 |

(CURRENCY: TURKISH LIRA (TL))

### 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 is amounting to TL 893,083 (31 December 2011: TL 875,916 TL) and members of the board of the directors, general manager, general coordinator, and deputy general managers is amounting to TL 3,584,890 (31 December 2011: TL 3,801,358).

### 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 companies are allowed to transfer technical section operating expense to insurance section through methods determined by Turkish Treasury or by the Company itself. Methods determined by the Company should be approved by the Turkish Treasury, Known and exactly distinguishable operating expenses are distributed to related branches directly, while operating expenses are distributed to the sub-branches in accordance with the average of 3 ratios calculated by dividing "number of the policies produced within the last three years", "gross premium written within the last three years", and "number of the claims reported within the last three years" to the "total number of the policies", "total gross written premiums" and the "total number of the claims reported", respectively.

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.

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

The accompanying financial statements comprise only the unconsolidated financial information of the Company. As further discussed in note 2.2 - *Consolidation,* the Company has prepared additionally consolidated financial statements as at and for the year ended 31 December 2012.

### 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: | Anadolu Anonim Türk Sigorta Şirketi |
| Registered address of the head office: | Büyükdere Cad. İş Kuleleri Kule 2 Kat 22-26 34330 4.Levent/İstanbul |
| The web page of the Company: | www.anadolusigorta.com.tr |

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

### 1.10 Events after the reporting date

According to Board of Directors' decision dated 9 January 2013 and numbered 6585, the Company decided to increase registered capital from TL 500,000,000 to TL 700,000,000 and change the Articles 6 and 48 of the Articles of Incorporation of the Company. Capital Markets' Board approved the increase of the registered capital.

## 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

In accordance with Article 50 (a) in Section VII of the Capital Markets Law, insurance companies have to comply with their own specific laws and regulations in matters of establishment, auditing, supervision/oversight, accounting and financial reporting. Therefore, the Company maintains its books of account and prepares its financial statements in accordance with the Turkish Accounting Standards ("TAS"), Turkish Financial Reporting Standards ("TFRS"), and other accounting and financial reporting principles, statements and guidance (collectively "the Reporting Standards") in accordance with the "Communiqué Related to the Financial Reporting of Insurance, Reinsurance, and Individual Pension Companies" as promulgated by the Turkish Treasury based on Article 18 of the Insurance Law and Article 11 of the 4632 numbered Individual Pension Savings and Investment System Law ("Individual Retirement 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.

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

### Additional paragraph for convenience translation to English

The differences between 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.

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

### Accounting in hyperinflationary countries

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

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

### Other accounting policies

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

### 2.1.3 Functional and presentation currency

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

### 2.1.4 Rounding scale of the amounts presented in the financial statements

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

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

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

### 2.1.6 Accounting policies, changes in accounting estimates and errors

There are no changes in the accounting policies or errors in the current period.

Critical accounting judgements used in applying the Company's accounting policies are explained in Note 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 31 December 2008 dated and 27097 numbered Official Gazette, has been in force since 31 March 2009. Accordingly, consolidated financial statements are prepared using the equity method of accounting to consolidate the Company's associate; Anadolu Hayat Emeklilik A.Ş.

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

### 2.3 Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, whose operating results are reviewed regularly by the Board of Directors (being chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. Since the main economic environment, where the Company operates, is Turkey, a geographical segment reporting has not been presented. A business segment reporting of the Company is presented in Note 5 in accordance with TFRS 8- *Operating Segments* standard.

### 2.4 Foreign currency transactions

Transactions are recorded in TL, which is the Company's functional currency. Transactions in foreign currencies are recorded at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates ruling at the reporting date and foreign currency exchange differences are offset and all exchange differences are recognized in the statement of income.

Foreign currency exchange differences of unrecognized gains or losses arising from the difference between their fair value and the discounted values calculated per effective interest rate method of foreign currency available-for-sale financial assets are recorded in "Revaluation of financial assets" under equity and the realized gain or losses are recognized directly in the statement of income.

(CURRENCY: TURKISH LIRA (TL))

### 2.5 Tangible assets

Tangible assets of the Company are recorded at their historical costs that have been adjusted for the effects of inflation 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 restated for the effects of inflation until 31 December 2004. Tangible assets that have been purchased after 1 January 2005 have been recorded at their costs after deducting any exchange rate differences and finance expenses.

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

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

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

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

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

Depreciation rates and estimated useful lives are as follows:

| Tangible Assets | Estimated Useful Lives (years) | Depreciation Rates (%) |
|---|---|---|
| Buildings | 50 | 2.0 |
| Machinery and equipments | 3 - 16 | 6.3 - 33.3 |
| Furniture and fixtures | 4 - 16 | 6.3 - 25.0 |
| Vehicles | 5 | 20.0 |
| Other tangible assets (including leasehold improvements) | 5 - 10 | 10.0 - 20.0 |
| Leased tangible assets | 4 - 10 | 10.0 - 25.0 |

### 2.6 Investment properties

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

Investment properties are measured initially at cost including transaction costs.

Subsequent to initial recognition, the Company measured all investment properties 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).

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

### 2.7 Intangible Assets

The Company's intangible assets consist of computer software, goodwill and advances paid for tangible assets.

Intangible assets are recorded at cost in compliance with "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.

Amortization is charged on a straight-line basis over their estimated useful lives over the cost of the asset.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company'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 Company 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 Company.

### 2.8 Financial assets

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

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 is recorded in profit/loss. Interest income earned on trading purpose financial assets and the difference between their fair values and acquisition costs are recorded as interest income in the statement of income. In case of disposal of such financial assets before their maturities, the gains/losses on such disposal are recorded under trading income/losses. Accounting policies of derivatives are detailed in note 2.10 – D*erivative 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. The Company has no financial assets that are not allowed to be classified as held to maturity financial assets for two years due to the tainting rules applied for the breach of classification rules.

*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. Unrecognized gains or losses derived from the difference between their fair value and the discounted values calculated per effective interest rate method are recorded in "Revaluation of financial assets" under shareholders' equity. Upon disposal, the realized gain or losses are recognized directly in the statement of income.

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

The Company has accounted equity shares classified as available-for-sale according to quoted market prices or dealer price quotations for financial instruments traded in active markets or according to cost less impairment losses for financial instruments not traded in active markets.

TAS 27 – *Consolidated and Separate Financial Statements*, subsidiaries, associates and joint-ventures could be accounted in accordance with TAS 39 – *Financial Instruments: Recognition and Measurement* or at cost in accordance with the 37th paragraph of TAS 27 – *Consolidated and Separate Financial Statements*. Parallel to the related sector announcements mentioned above, as at the reporting date the Company has accounted for its associate at fair value based on quoted market price.

Securities are recognized and derecognized at the date of settlement.

*Associates;* shares of the associate of the Company; Anadolu Hayat Emeklilik A.Ş. are classified as available-for-sale financial assets in the financial statements and are recorded at their fair values since those shares are traded in an active market.

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 assets

#### Impairment on financial asset

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 Company estimates the amount of impairment. A financial asset is impaired 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 operations. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in equity.

#### Impairment on tangible and intangible assets

On each reporting date, the Company evaluates whether there is an indication of impairment of tangible and intangible 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 period are detailed in *Note 47*.

### 2.10 Derivative financial instruments

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

Derivative financial instruments are initially recognized at their fair value.

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

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

### 2.11 Offsetting of financial assets

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

(CURRENCY: TURKISH LIRA (TL))

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

### 2.12 Cash and cash equivalents

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

### 2.13 Share capital

The shareholder having direct or indirect control over the shares of the Company is İş Bankası Group. As at 31 December 2012 and 31 December 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 (%) |
| Milli Reasürans T.A.Ş. | 286,550,106 | 57.31 | 286,550,106 | 57.31 |
| Other | 213,449,894 | 42.69 | 213,449,894 | 42.69 |
| Paid in Capital | 500,000,000 | 100.00 | 500,000,000 | 100.00 |

#### Privileges on common shares representing share capital

As at 31 December 2012, the issued share capital of the Company is TL 500,000,000 (31 December 2011: TL 500,000,000) and the share capital of the Company consists of 50,000,000,000 (31 December 2011: 50,000,000,000 shares) issued shares with TL 0.01 nominal value each. The Company's share capital is divided into group A and group B shares. The share capital is represented by 150 Group A shares of TL 0.01 each and Group B shares of the remaining amount.

The only privilege of Group A shares is about voting right at General Assembly meetings as Group A shares have 10 voting rights whereas Group B shares have 1 voting right.

#### Registered capital system in the Company

The Company has accepted the registered capital system. As of 31 December 2012, the Company's registered capital is TL 500,000,000 (31 December 2011: TL 500,000,000). In accordance with The Company's Board of Directors numbered 6585 and dated 9 January 2013, the company decided to raise the registered capital from TL 500,000,000 to TL 700,000,000 and change the Company's articles of 6 and 48 agents. Necessary applications to CMB in order to the registered capital is done but as the date of the report not yet ratified.

#### Repurchased own shares by the Company

None.

### 2.14 Insurance and investments contracts – classification

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

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

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

### 2.15 Insurance contracts and investment contracts with discretionary participation feature

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

*(i)* that are likely to comprise a significant portion of the total contractual benefits;

*(ii)* whose amount or timing is contractually at the discretion of the Issuer; and

*(iii)* that are contractually based on:

*(1)* the performance of a specified pool of contracts or a specified type of contract;

*(2)* realized and/or unrealized investments returns on a specified pool of assets held by the Issuer; or

*(3)* the profit or loss of the Company, Fund or other entity that issues the contract.

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

### 2.16 Investment contracts without DPF

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

### 2.17 Liabilities

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

### 2.18 Income taxes

#### Corporate tax

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

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

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

In accordance with the tax legislation, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods. As at 31 December 2012, the Company has deductible tax losses, amounting to TL 81,604,330 (31 December 2011: TL 6,424,063).

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 taxes

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.

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

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

### Transfer pricing

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

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

## 2.19 Employee benefits

### Pension and other post-retirement obligations

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee and his/her dependents 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 "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 a aforementioned Law published in the Official Gazette numbered 26870 and dated 8 May 2008. The related three-year transfer period has been prolonged for two years by the Cabinet decision, which was published on the Official Gazette dated 9 April 2011. Accordingly, the three-year period expired on 8 May 2011 was extended to the 8 May 2013. The principles and applications of the transfer will be determined by the Decree of the Council of Ministers separately.

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 aforementioned court on 30 March 2011.

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))

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 31 December 2011 are as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Discount rate | 3.18% | 4.50% |
| Expected rate of salary/limit increase | 4.40% | 4.50% |
| Estimated employee turnover rate | 4.08% | 2.22% |

Expected rate of salary/limit increase above was determined according to the government's annual inflation forecasts.

### Other benefits

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

### 2.20 Provisions

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

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

### 2.21 Revenue recognition

### Written premiums and claims paid

Written premiums represent premiums on policies written during the period net of taxes, premiums of the cancelled policies which were produced in prior periods and premium ceded to reinsurance companies. Premiums ceded to reinsurance companies are accounted as "written premiums, ceded" in the statement of income.

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 insure. 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 Company 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*) net subrogation and salvage receivables under receivables from main operations. The Company 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.

(CURRENCY: TURKISH LIRA (TL))

For the year 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 vehicles | -- | 12,000 |
| Total | 233,350,243 | 186,033,240 |

As at 31 December 2012 and 31 December 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 responsibility | 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 expense

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

### Interest income and expense

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

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

### Trading income/expense

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

### Dividends

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

### 2.22 Leasing transactions

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

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

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

### 2.23 Dividend distribution

Based on the guidelines and principals issued by the CMB dated 27 January 2010 for the distribution of dividends from the profit generated from operating activities in 2009, concerning public entities, the shares of which are quoted in public equity markets, it has been agreed upon not to set a mandatory minimum dividend payment quota. Furthermore, it has been agreed upon to let public entities perform dividend distributions as stated within the "Communiqué Concerning Principal Matters on Dividend Advances Distributed by Public Entities Under the Regulation of the Capital Markets Law" (Serial: IV, No: 27), as stated within the principal agreement of the companies and as stated within the policies on dividend distribution that have been shared with the public.

Additionally, as stated within the aforementioned decision of CMB, for entities required to prepare consolidated financial statements, it has been agreed upon to require the net distributed profit calculations to be performed on the net profit for the period as stated on the consolidated financial statements, so long that the distribution can be funded through statutory resources.

In this context, profit distribution is not performed in the current period since the Company recorded TL 1,347,085 consolidated loss in 2011.

### 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. 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.

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.

According to the 2009/9 Numbered Circular Related to Application of Technical Reserves issued on 27 March 2009 reserve for unearned premiums is calculated by taking into account that all polices become active at 12:00 at noon and end at 12:00 at noon.

According to the Communiqué on Technical Reserves, for the calculation of unearned premium reserves of foreign currency indexed insurance agreements, foreign currency selling exchange rates announced by Turkish Central Bank will be considered, unless there is a specified exchange rate in the agreement.

As at the reporting date, the Company has provided reserve for unearned premiums amounting to TL 1,104,218,773 (31 December 2011: TL 1,014,113,766) and reinsurer share in reserve for unearned premiums amounting TL 218,883,986 (31 December 2011: TL 203,119,196). Furthermore, reserve for unearned premiums includes Social Security Institution ("SSI") share amounting to TL 20,200,015 (31 December 2011: TL 14,079,233) as at 31 December 2012.

### 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. Incurred but not reported claims ("IBNR") are also provided.

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.

As at 1 January 2012, 100% of the calculated negative IBNR balances per each insurance branch are taken into calculation in accordance with the Circular issued by the Turkish Treasury dated 26 December 2011 and numbered 2011/23. Accrued salvage, subrogation and similar income is taken into calculation with collections in ACLM method.

In accordance with the temporary articles of the Communiqué on Technical Reserves, companies may use at least 80% and 90% of the result of the IBNR calculated by ACLM method or test IBNR for 2010 and 2011, respectively. 100% should be accounted in the financial statements as at 2012 although early implementation of 100% is permitted. Accordingly, the Company recorded 100% of the IBNR calculated by ACLM method amounting to TL 49,391,050 to the unconsolidated financial statements as IBNR and TL 438,092 as reinsurer's share of IBNR.

Result of the test IBNR is higher than IBNR calculated by ACLM method as at 31 December 2011 and the Company recorded 100% of the test IBNR result amounting to TL 65,659,140 to the unconsolidated financial statements as IBNR and TL 7,538,212 as reinsurer's share of IBNR.

In accordance with "Circular Related to Information on Calculation of Incurred But Not Reported Claims Reserve" numbered 2011/23 and dated 26 November 2011, companies may decrease their outstanding claims reserve balances based on the winning ratio of the sub-branches calculated from the last five years claims. Winning ratio used for decrease in provision for outstanding claims could not exceed 25% (15% for the new sub-branches which do not have five year data). Based on the aforementioned regulation, the Company 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.

(CURRENCY: TURKISH LIRA (TL))

The calculated winning ratio 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<br>Branch | Winning Ratios Used | Gross Amount<br>Decreased | Net Amount<br>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<br>Branch | Winning Ratios Used | Gross Amount<br>Decreased | Net Amount<br>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 |

ACLM to be used is announced with "Communiqué on Technical Reserves" which is issued by the Turkish Treasury on 20 September 2010, Insurance and reinsurance companies are allowed to use five different methods which are "Standard Chain, Claim/Premium, Cape Code, Frequency/Volume and Munich Chain Ladder" to make ACLM calculations. The Company's method selections for each branch are presented below. The Company has performed big claim elimination with the Box Plot method, Net IBNR amount is calculated on branch basis by taking effective reinsurance agreements and current reinsurance rates into account.

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Motor vehicles | Munich Chain Ladder | Munich Chain Ladder |
| Water vehicles | Standard Chain Ladder | Standard Chain Ladder |
| Third party liability for motor vehicles (MTPL) | Munich Chain Ladder | Munich Chain Ladder |
| Third party liability | Munich Chain Ladder | Munich Chain Ladder |
| Third party liability for air vehicles | Standard Chain Ladder | Standard Chain Ladder |
| Fire and natural disasters | Munich Chain Ladder | Munich Chain Ladder |
| Air crafts | Standard Chain Ladder | Standard Chain Ladder |
| Accident | Standard Chain Ladder | Standard Chain Ladder |
| General losses | Munich Chain Ladder | Munich Chain Ladder |
| Financial losses | Standard Chain Ladder | Standard Chain Ladder |
| Health | Standard Chain Ladder | Standard Chain Ladder |
| Transportation | Standard Chain Ladder | Standard Chain Ladder |
| Credit | Standard Chain Ladder | Standard Chain Ladder |
| Legal protection | Standard Chain Ladder | Standard Chain Ladder |
| General liability | Munich Chain Ladder | Munich Chain Ladder |

### 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 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 Company is 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" for the period ended 31 December 2012. Furthermore, in accordance with the 28 September 2012 dated Undersecretariat of Treasury document, additional TL 28,776 TL is booked at the same account for the liabilities from year 2011.

### 2.26 Reserve for unexpired risks

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.

In accordance with Treasury circular numbered 2012/15, unexpired risk reserve started to be calculated over main branches as of December 31, 2012. The test is performed on branch basis and in case where the expected claim/premium ratio is higher than 95%, reserve calculated by multiplying the exceeding portion of the expected claim/premium ratio with the reserve for unearned premiums of that specific branch is added to the reserves of that branch. Accordingly, as at the reporting date, the Company has provided net reserve for unexpired risk amounting to TL 9,710,946 (31 December 2011: TL 32,181,716) and unexpired risk amounting of reassurance to TL 5,613,423 (31 December 2011: TL 13,461,252) in the accompanying unconsolidated financial statements

As at 31 December 2012, reserve for unexpired risks at the beginning of the period is revised according to calculation method used in the current period in order to determine consistent claims/premium ratio, According to the Circular numbered 2011/10 and dated 3 June 2011, reserve for unexpired risks is calculated by using 100% of the current period and previous period outstanding claims reserve determined by the new method and used in expected claims/premium ratio.

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.

### 2.27 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 un-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. Equalization provisions are presented under "other technical reserves" in the accompanying financial statements. As at the reporting date, the Company provided equalization provision amounting to TL 32,157,249 in the accompanying unconsolidated financial statements (31 December 2011: TL 20,519,045).

Net losses (after reinsurance) resulted from earthquake occurred in Van amounting to TL 6,425,552 (31 December 2011: TL 5,824,550) are decreased from prior periods' equalization provision.

### 2.28 Related parties

Parties are considered related to the Company if;

(a) directly, or indirectly through one or more intermediaries, the party:

- controls, is controlled by, or is under common control with the Company (this includes parent, subsidiaries and fellow subsidiaries);
- has an interest in the Company that gives it significant influence over the Company; or
- has joint control over the Company;

(b) the party is an associate of the Company;

(c) the party is a joint venture in which the Company is a venturer;

(d) the party is member of the key management personnel of the Company and its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled or significantly influenced by, or for which significant voting power in such entity resides with directly or indirectly, any individual referred to in (d) or

(g) the party is a post-employment benefit plan for the benefit of employees of the Company, or of any entity that is a related party of the Company.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

A number of transactions are entered into with related parties in the normal course of business.

### 2.29 Earnings per share

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

### 2.30 Events after the reporting date

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

### 2.31 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 IFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. An entity shall apply TFRS 13 for annual periods beginning on or after 1 January 2013.

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

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

- Amendments to TAS 1 – "*Presentation of Items of Other Comprehensive Income*" are effective for annual periods beginning on or after 1 July 2012, The amendments to TAS 1 change only the grouping of items presented in other comprehensive income, Items that could be reclassified (or recycled) to profit or loss at a future point in time would be presented separately from items which will never be reclassified.
- IFRS 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.
- IFRS 11 *Joint Arrangements* focuses on the rights and obligations of joint arrangements, rather than the legal form (as is currently the case) and supersedes IAS 31 J*ointly Controlled Entities—Non-Monetary Contributions by Venturers.* The standard is effective for annual periods beginning on or after 1 January 2013.
- IFRS 12 *Disclosure of Interests in Other Entities* contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities. The standard is effective for annual periods beginning on or after 1 January 2013.
- IAS 12- *Income Taxes* contains the recovery of the issues related with deferred tax assets. The standard is effective for annual periods beginning on or after 1 January 2012.
- IAS 27 *Separate Financial Statements* (2011) supersedes IAS 27 (2008). IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The standard is effective for annual periods beginning on or after 1 January 2013.

- IAS 28 *Investments in Associates and Joint Ventures* (2011) supersedes IAS 28 (2008). IAS 28 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The standard is effective for annual periods beginning on or after 1 January 2013.
- IFRS 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 financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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

Note 4.1 – *Management of insurance risk*

Note 4.2 – *Financial risk management*

Note 10 – *Reinsurance assets/liabilities*

Note 11 – *Financial assets*

Note 12 – *Loans and receivables*

Note 17 – *Insurance liabilities and reinsurance assets*

Note 17 – *Deferred acquisition costs*

Note 19 – *Trade and other payables, deferred income*

Note 21 – *Deferred income taxes*

Note 23 – *Provisions for other liabilities and charges*

## 4 Management of insurance and financial risk

### 4.1 Management of insurance risk

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 company and coverage portion transfers to policyholders and transfer conditions.

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

Potential risks that may be exposed in transactions are managed based on the requirements set out in the Company's "Risk Management Policies" issued by the approval of the Board of Directors. The main objective of risk management policies 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.

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

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

It is essential that all the authorized personnel in charge of executing policy issuance transactions, which is the initial phase of insurance process, should ensure to gather or provide all the accurate and complete information to issue policies in order to obtain evidence on the acceptable risks that the Company 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.

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.

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

### *Sensitivity to insurance risk*

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

The case of potential claims' arising from earthquake and other catastrophic risks exceeding the maximum limit of the excess of loss agreements, such risks are treated as the primary insurance risks and are managed based on the precautionary principle. Maximum limit of excess of loss agreements is determined based on the worst case scenario on the possibility of an earthquake that Istanbul might be exposed to in terms of its severity and any potential losses incurred in accordance with the generally accepted international earthquake models. The total amount of protection for catastrophic risks of the company is identified taking into the compensation amount for an earthquake will occur in a 1000 years.

(CURRENCY: TURKISH LIRA (TL))

*Insurance risk concentration*

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

| Total claims liability (*) 31 December 2012 | Gross total claims liability | Reinsurance share of total claims liability | Net total claims liability |
|---|---|---|---|
| Motor vehicles liability (MTPL) | 252,623,995 | (11,443,379) | 241,180,616 |
| General liability | 91,606,279 | (5,652,930) | 85,953,349 |
| Motor vehicles | 67,249,281 | 2,121,099 | 69,370,380 |
| General losses | 57,226,369 | (33,723,748) | 23,502,621 |
| Fire and natural disasters | 56,902,189 | (18,066,609) | 38,835,580 |
| Transportation | 21,473,659 | (11,712,733) | 9,760,926 |
| Water vehicles | 16,429,882 | (7,349,524) | 9,080,358 |
| Accident | 10,711,734 | (304,219) | 10,407,515 |
| Financial losses | 3,186,232 | (2,739,778) | 446,454 |
| Air crafts liability | 1,428,133 | (431,392) | 996,741 |
| Health | 1,278,191 | (26,789) | 1,251,402 |
| Credit | 1,243,634 | (92,519) | 1,151,115 |
| Legal protection | 158,710 | -- | 158,710 |
| Air crafts | (2,727,394) | (17,910) | (2,745,304) |
| Total | 578,790,894 | (89,440,431) | 489,350,463 |

| Total claims liability (*) 31 December 2011 | Gross total claims liability | Reinsurance share of total claims liability | Net total claims liability |
|---|---|---|---|
| Motor vehicles liability (MTPL) | 165,544,547 | (9,649,555) | 155,894,992 |
| General liability | 58,859,753 | (3,829,404) | 55,030,349 |
| Motor vehicles | 61,741,879 | (3,251,568) | 58,490,311 |
| General losses | 43,648,879 | (13,833,780) | 29,815,099 |
| Fire and natural disasters | 22,581,273 | (1,513,145) | 21,068,128 |
| Transportation | 38,985,340 | (16,052,164) | 22,933,176 |
| Water vehicles | 10,941,697 | (1,247,942) | 9,693,755 |
| Accident | 6,606,954 | (191,130) | 6,415,824 |
| Financial losses | 9,241,803 | (4,957,684) | 4,284,119 |
| Air crafts liability | 1,124,280 | (11,939) | 1,112,341 |
| Health | 310,767 | (3,713) | 307,054 |
| Credit | 132,146 | -- | 132,146 |
| Legal protection | 311,228 | (20,736) | 290,492 |
| Air crafts | 4,201,477 | (4,008,563) | 192,914 |
| Total | 424,232,023 | (58,571,323) | 365,660,700 |

(*) Total claims liability includes outstanding claims reserve (excluding contingent amounts deducted from claims reserve determined by winning probability) and incurred but not reported claims.

Gross and net insurance risk concentrations of the insurance contracts (after reinsurance) based on geographical regions are summarized as below:

| Total claims liability (*) 31 December 2012 | Gross total claims liability | Reinsurance share of total claims liability | Net total claims liability |
|---|---|---|---|
| Turkey | 542,199,837 | (101,387,616) | 440,812,221 |
| Europe | 8,141,420 | (2,772,713) | 5,368,707 |
| Asia | 4,030 | -- | 4,030 |
| Africa | 288,633 | (23,951) | 264,682 |
| America | 333,041 | (180,172) | 152,869 |
| Total | 550,966,961 | (104,364,452) | 446,602,509 |

(CURRENCY: TURKISH LIRA (TL))

| Total claims liability 31 December 2011 | Gross total claims liability | Reinsurance share of total claims liability | Net total claims liability |
|---|---|---|---|
| Marmara Region | 275,040,813 | (68,108,016) | 206,932,797 |
| Middle Anatolian Region | 69,762,551 | (6,879,608) | 62,882,943 |
| Aegean Region | 53,954,484 | (3,441,421) | 50,513,063 |
| Mediterranean Region | 54,313,542 | (12,461,090) | 41,852,452 |
| Black Sea Region | 37,249,132 | (5,622,844) | 31,626,288 |
| East Anatolian Region | 25,420,411 | (3,340,688) | 22,079,723 |
| South East Anatolian Region | 26,458,904 | (1,533,949) | 24,924,955 |
| Total | 542,199,837 | (101,387,616) | 440,812,221 |

(*) Total claims liability includes estimated compensation amounts for realized claims. Gross incurred but not reported claims amounting to TL 49,391,050 could not be distributed to geographical regions amounting to TL 25,841,375 and the contingent amounts deducted from claims reserve amounting to TL (47,408,492) are excluded from the table.

| Total claims liability (*) 31 December 2011 | Gross total claims liability | Reinsurance share of total claims liability | Net total claims liability |
|---|---|---|---|
| Turkey | 364,227,481 | (52,361,395) | 311,866,086 |
| Europe | 9,336,786 | (2,434,090) | 6,902,696 |
| America | 4,310 | -- | 4,310 |
| Asia | 417,548 | (69,011) | 348,537 |
| Africa | 275,073 | (182,920) | 92,153 |
| Total | 374,261,198 | (55,047,416) | 319,213,782 |

| Total claims liability 31 December 2011 | Gross total claims liability | Reinsurance share of total claims liability | Net total claims liability |
|---|---|---|---|
| Marmara Region | 167,492,187 | (25,776,344) | 141,715,843 |
| Middle Anatolian Region | 51,064,182 | (6,335,649) | 44,728,533 |
| Aegean Region | 36,922,690 | (3,921,015) | 33,001,675 |
| Mediterranean Region | 39,273,624 | (7,684,776) | 31,588,848 |
| Black Sea Region | 26,850,040 | (3,887,806) | 22,962,234 |
| South East Anatolian Region | 22,365,392 | (2,711,806) | 19,653,586 |
| East Anatolian Region | 20,259,366 | (2,043,999) | 18,215,367 |
| Total | 364,227,481 | (52,361,395) | 311,866,086 |

(*) Total claims liability includes estimated compensation amounts for realized claims. Gross incurred but not reported claims amounting to TL 65,659,140, outstanding claims of treaty activities which could not be distributed to geographical regions amounting to TL 21,218,056 and the contingent amounts deducted from claims reserve amounting to TL (36,906,371) are excluded from the table.

## Given insurance collateral amounts in respect to branches

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Motor vehicles liability (MTPL) | 4,208,835,922,827 | 4,247,137,811,767 |
| Fire and natural disasters | 187,016,811,741 | 153,850,439,250 |
| Health | 180,654,186,615 | 175,275,589,659 |
| General liability | 37,956,651,812 | 23,408,849,888 |
| Accident | 34,510,916,625 | 34,799,629,889 |
| Motor vehicles | 31,486,496,626 | 27,690,515,766 |
| General Loses | 30,216,737,696 | 21,803,939,997 |
| Transportation | 17,354,547,085 | 14,765,026,140 |
| Water vehicles | 15,842,442,850 | 12,464,220,179 |
| Air crafts | 1,503,340,453 | 1,961,268,707 |
| Legal protection | 760,006 | -- |
| Total | 4,745,378,814,336 | 4,713,157,291,242 |

## 4.2 Management of financial risk

### Introduction and overview

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

- credit risk
- liquidity risk
- market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. Duties and responsibilities of the Risk Management and Internal Control Department include design and implementation of risk management system and identification and implementation of risk management policies. It is also responsible for ensuring that the Company implements all necessary risk management techniques. Activities of the Risk Management and Internal Control Department are managed directly by General Manager. The Board of Directors monitors the effectiveness of the risk management system through the internal audit department.

Risk management policies and guidelines are set by the Board of Directors and applied by the top management. These policies include organisation and scope of the risk management function, risk measurement and assessment methods, duties and responsibilities of the Board of Directors, top management and all of the employees, procedures followed in the case of limit extension and compulsory approval and confirmation processes for certain situations.

### Credit Risk

Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The balance sheet items that the Company is exposed to credit risks are as follows:

- Cash at banks
- Other cash and cash equivalents
- Available for sale financial assets (except equity-shares)
- Financial assets held for trading (except equity-shares)
- Held to maturity financial asset
- Premium receivables from policyholders
- Receivables from intermediaries (agencies)
- Receivables from reinsurance companies related to commissions and claims paid
- Reinsurance shares of insurance liability
- Receivables from related parties
- Other receivables

Reinsurance contracts are the most common method to manage insurance risk. This does not, however, discharge the Company's liability as the primary insurer. If a reinsurer fails to pay a claim for any reason, the Company 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.

(CURRENCY: TURKISH LIRA (TL))

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)* | 969,566,847 | 913,021,303 |
| Receivables from main operations *(Note 12)* | 646,879,957 | 553,528,183 |
| Financial assets *(Note 11)* (*) | 219,223,552 | 256,209,429 |
| Reinsurer share in provision for outstanding claims *(Note 10), (Note 17)* | 89,440,431 | 58,571,323 |
| Prepaid taxes and funds *(Note 19)* | 10,640,156 | 7,938,909 |
| Other receivables *(Note 12* | 2,195,501 | 1,869,978 |
| Other prepaid expenses *(Note 10)* | 2,365,311 | 6,063,976 |
| Other miscellaneous current assets *(Not 12)* | 629,359 | 1,029,887 |
| Due from related parties *(Note 12)* | 1,445,693 | 90,230 |
| Total | 1,942,386,807 | 1,798,323,218 |

(*) Equity shares amounting to TL 136,198,740 are not included (31 December 2011: TL 79,693,826).

As at 31 December 2012 and 31 December 2011, the aging of the receivables from main operations is as follows:

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | Gross Amount | Provision | Gross Amount | Provision |
| Not past due | 447,676,929 | -- | 387,807,418 | -- |
| Past due 0-30 days | 78,026,586 | -- | 46,045,098 | -- |
| Past due 31-60 days | 13,000,945 | -- | 11,426,198 | -- |
| Past due 61-90 days | 5,815,411 | -- | 3,644,814 | -- |
| More than 90 days (*) | 108,939,823 | (87,996,612) | 92,973,712 | (82,451,564) |
| Total (**) | 653,459,694 | (87,996,612) | 541,897,240 | (82,451,564) |

(*) 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.

(**) Except for TL 653,459,694 (31 December 2011: TL 541,897,249) presented under receivables from insurance operations in the financial statements, this amount also 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 2011: TL 39,723,166) of subrogation and salvage receivables. Subrogation receivables having past over 4 months for individuals and 6 months for legal entities but not transferred to legal follow-up amounting to TL 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 period | 82,451,564 | 72,569,506 |
| Collections during the period *(Note 47)* | (721,494) | (2,155,254) |
| 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 |
| Provision for receivables from insurance operations at the end of the period | 87,996,612 | 82,451,564 |

### Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash commitments associated with financial instruments.

*Management of the liquidity risk*

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

(CURRENCY: TURKISH LIRA (TL))

Maturity distribution of monetary assets and liabilities:

| 31 December 2012 | Carrying amount | Up to 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | Over 1 year | Unallocated |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 968,521,375 | 419,537,453 | 516,013,673 | 15,081,195 | 17,889,054 | -- | -- |
| Financial assets | 355,422,292 | 21,583,263 | 22,917,436 | 1,946,740 | 21,491,716 | 122,475,477 | 165,007,660 |
| Receivables from main operations | 646,879,957 | 59,058,395 | 255,849,629 | 250,102,496 | 74,829,667 | 7,039,770 | -- |
| Due from related parties | 1,445,693 | -- | 1,445,693 | -- | -- | -- | -- |
| Other receivables and current assets | 2,673,334 | 553,086 | 1,106,173 | 754,496 | 259,579 | -- | -- |
| Other prepaid expenses | 2,365,311 | -- | -- | -- | 2,365,311 | -- | -- |
| Total monetary assets | 1,977,307,962 | 500,732,197 | 797,332,604 | 267,884,927 | 116,835,327 | 129,515,247 | 165,007,660 |
| | | | | | | | |
| Insurance technical provisions (*) | 489,350,463 | 88,430,870 | 176,861,745 | 32,284,573 | 32,373,118 | 159,400,157 | -- |
| Payables arising from main operations | 198,973,610 | 43,576,474 | 4,568,932 | 143,633,730 | 7,194,474 | -- | -- |
| Due to related parties | 15,494 | -- | -- | -- | -- | 15,494 | -- |
| Other liabilities | 61,006,748 | 18,955,149 | 14,884,995 | 1,571,951 | 690,830 | 26,203,681 | (1,299,858) |
| Provisions for taxes and other similar obligations | 16,325,270 | -- | 16,325,270 | -- | -- | -- | -- |
| Provisions for other risks and expense accruals | 31,243,630 | -- | 21,387,419 | -- | -- | 9,856,211 | -- |
| Total monetary liabilities | 796,915,215 | 150,962,493 | 234,028,361 | 177,490,254 | 40,258,422 | 195,475,543 | (1,299,858) |

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

| 31 December 2011 | Carrying amount | Up to 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | Over 1 year | Unallocated |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 911,631,717 | 480,500,221 | 282,615,670 | 147,244,247 | 1,210,490 | -- | 61,089 |
| Financial assets | 335,903,255 | 54,123,379 | 33,720,540 | 16,943,258 | 18,130,048 | 133,292,204 | 79,693,826 |
| Receivables from main operations | 553,528,183 | 52,244,815 | 228,066,944 | 208,181,430 | 58,611,228 | 6,423,766 | -- |
| Due from related parties | 90,230 | 15,038 | 30,077 | 30,077 | 15,038 | -- | -- |
| Other receivables and current assets | 2,835,953 | 513,540 | 1,027,080 | 803,918 | 491,415 | -- | -- |
| Other prepaid expenses | 6,063,976 | -- | 6,063,976 | -- | -- | -- | -- |
| Total monetary assets | 1,810,053,314 | 587,396,993 | 551,524,287 | 373,202,930 | 78,458,219 | 139,715,970 | 79,754,915 |
| | | | | | | | |
| Insurance technical provisions (*) | 365,660,700 | 66,078,805 | 132,157,614 | 24,124,223 | 24,190,387 | 119,109,671 | -- |
| Payables arising from main operations | 172,569,477 | 54,554,414 | 14,486,098 | 96,901,223 | 6,627,742 | -- | -- |
| Due to related parties | 15,494 | -- | -- | -- | -- | 15,494 | -- |
| Other liabilities | 43,362,055 | 16,239,693 | 7,636,335 | 244,591 | -- | 19,241,436 | -- |
| Provisions for taxes and other similar obligations | 16,770,948 | -- | 16,770,948 | -- | -- | -- | -- |
| Provisions for other risks and expense accruals | 21,940,598 | -- | 14,747,530 | -- | -- | 7,193,068 | -- |
| Total monetary liabilities | 620,319,272 | 136,872,912 | 185,798,525 | 121,270,037 | 30,818,129 | 145,559,669 | -- |

(*) Provision for outstanding claims is presented as short term liabilities in the accompanying unconsolidated 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 rates, foreign exchange rates and credit spreads will affect the Company's income or the value of its holdings of financial instruments, The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk,

(CURRENCY: TURKISH LIRA (TL))

### Currency risk

The Company is exposed to 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 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 income,

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

| 31 December 2012 | US Dollar | Euro | Other currencies | Total |
|---|---|---|---|---|
| Receivables from main operations | 82,386,146 | 37,511,128 | 936,329 | 120,833,603 |
| Financial assets | -- | 10,871,446 | -- | 10,871,446 |
| Cash and cash equivalents | 52,455,145 | 8,274,248 | 1,422,531 | 62,151,924 |
| Total foreign currency assets | 134,841,291 | 56,656,822 | 2,358,860 | 193,856,973 |
| Insurance technical provisions | 67,869,975 | 26,439,452 | 2,527,918 | 96,837,345 |
| Payables arising from main operations | 82,205,877 | 37,378,301 | 904,250 | 120,488,428 |
| Total foreign currency liabilities | 150,075,852 | 63,817,753 | 3,432,168 | 217,325,773 |
| Net financial position | (15,234,561) | (7,160,931) | (1,073,308) | (23,468,800) |

| 31 December 2011 | US Dollar | Euro | Other currencies | Total |
|---|---|---|---|---|
| Receivables from main operations | 61,756,133 | 27,472,464 | 1,200,895 | 90,429,492 |
| Financial assets | -- | 7,251,005 | -- | 7,251,005 |
| Cash and cash equivalents | 35,174,871 | 6,755,154 | 1,773,554 | 43,703,579 |
| Total foreign currency assets | 96,931,004 | 41,478,623 | 2,974,449 | 141,384,076 |
| Insurance technical provisions | 33,124,452 | 18,418,128 | 2,125,065 | 53,667,645 |
| Payables arising from main operations | 61,362,061 | 27,281,995 | 1,163,198 | 89,807,254 |
| Total foreign currency liabilities | 94,486,513 | 45,700,123 | 3,288,263 | 143,474,899 |
| Net financial position | 2,444,491 | (4,221,500) | (313,814) | (2,090,823) |

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

Foreign currency transactions are recorded at the foreign exchange rates ruling at the dates of the transactions and foreign currency denominated monetary items are evaluated by the Central Bank of the Republic of Turkey's spot purchase rates as at 31 December 2012.

*Exposure to currency risk*

Foreign currency rates used for the translation of foreign currency denominated assets and liabilities as at 31 December 2012 and 31 December 2011 are as follows:

| | US Dollar | Euro |
|---|---|---|
| 31 December 2012 | 1.7826 | 2.3517 |
| 31 December 2011 | 1.8889 | 2.4438 |

(CURRENCY: TURKISH LIRA (TL))

A 10 percent depreciation of the TL against the following currencies as at 31 December 2012 and 31 December 2011 would have increased or decreased equity and profit or loss (excluding tax effects) by the amounts shown below, This analysis assumes that all other variables, in particular interest rates, remain constant, In case of a 10 percent appreciation of the TL against the following currencies, the effect will be in opposite direction.

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | Profit or loss | Equity (*) | Profit or loss | Equity (*) |
| US Dollar | (1,523,456) | (1,523,456) | 244,449 | 244,449 |
| Euro | (716,093) | (716,093) | (422,150) | (422,150) |
| Other | (107,331) | (107,331) | (31,381) | (31,381) |
| Total, net | (2,346,880) | (2,346,880) | (209,082) | (209,082) |

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

*Exposure to interest risk*

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

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| *Financial assets with fixed interest rates:* | | |
| Financial assets held for trading - reverse repos *(Note 11)* | 5,542,173 | 2,567,331 |
| Cash at banks *(Note 14)* (*) | 792,779,438 | 672,098,246 |
| Available for sale financial assets - Private debt securities *(Note 11)* | 40,904,798 | 41,091,831 |
| Cash deposited to insurance and reinsurance companies *(Note 12)* | 3,906,064 | 3,059,613 |
| Available for sale financial assets - Government bonds *(Note 11)* | 29,499,619 | 20,040,604 |
| Financial assets held for trading - Private debt securities *(Note 11)* | 2,091,292 | 1,972,631 |
| *Financial assets with variable interest rates:* | | |
| Held to maturity investments - Government bonds *(Note 11)* | 89,590,740 | 85,608,329 |
| Available for sale financial assets - Government bonds *(Note 11)* | 11,047,336 | 22,283,652 |
| Financial assets held for trading - Private debt securities *(Note 11)* | -- | 11,609,645 |
| Financial assets held for trading - Government bonds *(Note 11)* | 903,870 | 8,442,412 |
| Available for sale financial assets - Private debt securities *(Note 11)* | 10,834,804 | 11,036,619 |

(*) Demand deposits amounting to TL 17,735,987 are not included (31 December 2011: TL 19,220,696).

*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 for the periods ended 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, The table below demonstrating the effect of changes in interest rates on statement of income and equity excludes tax effects on related loss or income.

(CURRENCY: TURKISH LIRA (TL))

| | Profit or loss | | Equity (*) | |
|---|---|---|---|---|
| 31 December 2012 | 100 bp increase | 100 bp decrease | 100 bp increase | 100 bp decrease |
| Financial assets held for trading | (44,941) | 46,726 | (192,254) | 201,659 |
| Available for sale financial assets | -- | -- | (1,246,995) | 1,290,274 |
| Total, net | (44,941) | 46,726 | (1,439,249) | 1,491,933 |

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

| | Profit or loss | | Equity (*) | |
|---|---|---|---|---|
| 31 December 2011 | 100 bp increase | 100 bp decrease | 100 bp increase | 100 bp decrease |
| Financial assets held for trading | (378,728) | 398,331 | (378,728) | 398,331 |
| Available for sale financial assets | -- | -- | (1,176,417) | 1,244,279 |
| Total, net | (378,728) | 398,331 | (1,555,145) | 1,642,610 |

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

*Fair value information*

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

The Company has classified its financial assets as held for trading, available for sale or held to maturity. As at the reporting date, available for sale financial assets and financial assets held for trading are measured at their fair values based on their quoted prices or fair value information obtained from brokers in the accompanying unconsolidated financial statements. Equity shares not traded in active markets are measured at cost less impairment losses if any. 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 2011: TL 86,251,546) as at 31 December 2012.

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

*Fair value sensitivity of the equities*

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

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

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | Profit or loss | Equity (*) | Profit or loss | Equity (*) |
| Financial assets held for trading | (444,938) | (444,938) | (1,531,254) | (1,531,254) |
| Available for sale financial assets | -- | (12,191,044) | -- | (6,040,983) |
| Associates | -- | (25,200,000) | -- | (16,440,000) |
| Total, net | (444,938) | (37,835,982) | (1,531,254) | (24,012,237) |

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

(CURRENCY: TURKISH LIRA (TL))

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

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

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

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

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

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

| | 31 December 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| *Financial assets:* | | | | |
| Associates *(Note 9)* | 25,000,000 | -- | -- | 252,000,000 |
| Financial assets held for trading *(Note 11)* | 47,593,247 | -- | -- | 47,593,247 |
| Available for sale financial assets (*) *(Note 11)* | 214,197,000 | -- | 3,272,355 | 217,469,355 |
| Total financial assets | 513,790,247 | -- | 3,272,355 | 517,062,602 |

| | 31 December 2011 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| *Financial assets:* | | | | |
| Associates *(Note 9)* | 164,400,000 | -- | -- | 164,400,000 |
| Financial assets held for trading *(Note 11)* | 91,460,928 | -- | -- | 91,460,928 |
| Available for sale financial assets (*) *(Note 11)* | 154,862,534 | -- | 3,222,539 | 158,085,073 |
| Total financial assets | 410,723,462 | -- | 3,222,539 | 413,946,001 |

(*) As at 31 December 2012, securities that are not publicly traded and the determination of fair values could not be obtained reliably amounting to TL 768,950 have been measured at cost (31 December 2011: TL 748,925).

(CURRENCY: TURKISH LIRA (TL))

Gains and losses from financial assets

| *Gains and losses recognized in the statement of income:* | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Interest income from bank deposits | 74,914,513 | 52,000,485 |
| Foreign exchange gains | 11,312,773 | 29,252,952 |
| Income from investments in associates | 8,000,000 | 18,000,003 |
| Income from debt securities classified as held to maturity financial investments | 9,266,300 | 11,264,781 |
| Income from equity shares classified as available-for-sale financial assets | 17,925,904 | 10,241,930 |
| Income from equity shares classified as trading financial assets | 5,375,164 | 7,889,378 |
| Income from debt securities classified as available-for-sale financial assets | 10,771,099 | 7,580,732 |
| Income from debt securities classified as held for trading financial assets | 1,679,133 | 7,509,633 |
| Income from derivative transactions | 293,358 | 2,484,025 |
| Income from investment funds | 12,098,350 | 1,531,752 |
| Other | 1,240,016 | 1,046,890 |
| Investment income | 152,876,610 | 148,802,561 |
| | | |
| Loss from valuation of financial assets | (4,837,314) | (19,967,729) |
| Foreign exchange losses | (16,217,606) | (15,152,414) |
| Loss from derivative transactions | (311,150) | (9,928,921) |
| Loss from disposal of financial assets | (5,218,236) | (9,118,734) |
| Investment expenses – including interest | (195,000) | -- |
| Investment expenses | (26,779,306) | (54,167,798) |
| | | |
| Financial gains and losses recognized in the statement of income, net | 126,097,304 | 94,634,763 |

| *Financial gains and losses recognized in equity:* | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Fair value changes in investments in associates *(Note 15)* | 87,600,000 | (112,599,984) |
| Net gains transferred from statement of equity to the statement of income on disposal of available for sale financial assets *(Note 15)* | (996,384) | (8,961) |
| Fair value changes in available-for-sale financial assets *(Note 15)* | 28,614,298 | (24,108,057) |
| Gains and losses recognized in equity, net | 115,217,914 | (136,717,002) |

### 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 611,548,983 as at 31 December 2012. As at 31 December 2012, the capital amount of the Company presented in the unconsolidated financial statements are above the minimum capital requirement amounts calculated according to the communiqué.

## 5 Segment reporting

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

### Business segment

A business segment reporting of the Company is presented in accordance with TFRS 8 – *Operating Segments* standard in this section.

### Insurance on Fire and Natural Disaster

Insurance on fire and natural disasters covers material damages occurred due to fire, lightening, explosion or smoke, steam and temperature resulted from fire, lightning and explosion up to insurance policy limits.

### Motor Third Party Liability Insurance

According to the Motorway Traffic Code numbered 2918, Motor Third Party Liability Insurance is covers vehicle owner's legal liability for all bodily damages to third persons and financial damages to other vehicles.

Damages caused by the trailer or semi-trailers (included light trailers) or the vehicles pulled is covered by the insurance of the trailer. However, the trailers used for transportation of people should be included in an additional liability insurance in order to obtain coverage.

In order to reduce and prevent the damage in the accident happened, reasonable and necessary expenses of the policyholder is compensated by the Company. This insurance also covers unfair claims against the policyholders.

### Motor Vehicles

Insurance on motor vehicles covers the following dangers related with vehicles. It is possible to widen policy scope for accessories or audio, display and communication devices which are not included in standard version of the vehicle by specifying on the insurance policy.

- Accident with the motorized or non-motorized vehicles which used in high-ways,
- Crash with fixed or moving items without desire of the driver or accidents due to crash, capsize, fall or tumble
- The actions of third parties resulted from bad intention or mischief,
- Burn,
- Theft or attempted theft

### Health

Insurance on health compensates treatment costs of illnesses or accidental injuries during the period of insurance and, if any, daily allowances in this general framework with special conditions up to the amount written in the policy. Geographical limits of the insurance are stated in the policy.

### Geographical segment

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

(CURRENCY: TURKISH LIRA (TL))

| | Motor third party liability | Health | Motor vehicles | Fire and natural disasters | Other | Unallocated | Total |
|---|---|---|---|---|---|---|---|
| 1 January – 31 December 2012 | | | | | | | |
| 1- Earned Premiums (Net of Reinsurer Share) | 424,389,110 | 184,624,095 | 688,427,312 | 129,969,873 | 255,581,714 | -- | 1,682,992,104 |
| 1,1- Written Premiums (Net of Reinsurer Share) | 431,743,062 | 193,566,866 | 701,477,765 | 150,090,529 | 259,710,376 | -- | 1,736,588,598 |
| 1,2- Change in Reserve for Unearned Premiums (Net of Reinsurer Shares and Less the Amounts Carried Forward) | (20,199,080) | (8,942,771) | (13,050,453) | (20,120,656) | (5,906,475) | -- | (68,219,435) |
| 1,3- Change in Reserve for Unexpired Risks (Net of Reinsurer Share and Less the Amounts Carried Forward) | 12,845,128 | -- | -- | -- | 1,777,813 | -- | 14,622,941 |
| 2- Other Technical Income (Net of Reinsurer Share) | 37,886 | 145,345 | 2,252,441 | 61,329 | 175,396 | | 2,672,397 |
| 3- Accrued Salvage and Subrogation Income | 1,956,049 | (51,636) | (15,290,581) | 3,181,166 | (89,708) | | (10,294,710) |
| Technical Income (*) | 426,383,045 | 184,717,804 | 675,389,172 | 133,212,368 | 255,667,402 | -- | 1,675,369,791 |
| 1- Incurred Losses (Net of Reinsurer Share) | (395,812,681) | (136,621,822) | (594,196,282) | (90,044,275) | (150,341,265) | -- | (1,367,016,325) |
| 1,1- Claims Paid (Net of Reinsurer Share) | (310,527,054) | (156,438,549) | (583,316,213) | (81,023,795) | (112,020,951) | -- | (1,243,326,562) |
| 1,2- Change in Provisions for Outstanding Claims (Net of Reinsurer Share and Less the Amounts Carried Forward) | (85,285,627) | 19,816,727 | (10,880,069) | (9,020,480) | (38,320,314) | -- | (123,689,763) |
| 2- Change in Other Technical Reserves (Net of Reinsurer Share and Less the Amounts Carried Forward) | -- | -- | (1,698,015) | (8,239,025) | (1,701,164) | -- | (11,638,204) |
| 3- Operating Expenses | (131,080,316) | (42,429,892) | (193,141,535) | (44,932,354) | (72,938,598) | -- | (484,522,695) |
| 4- Other Technical Provisions | (3,719,563) | -- | -- | -- | (23,881) | -- | (3,743,444) |
| Technical Expense | (530,612,560) | (179,051,714) | (789,035,832) | (143,215,654) | (225,004,908) | -- | (1,866,920,668) |
| Investment Income | | | | | | 154,411,126 | 154,411,126 |
| Investment Expense (*) | | | | | | (35,219,628) | (35,219,628) |
| Other (**) | | | | | | (8,633,295) | (8,633,295) |
| Net loss before tax | | | | | | | (80,992,674) |
| Income tax | | | | | | 17,011,542 | 17,011,542 |
| Net loss | | | | | | | (63,981,132) |

(*) Investment income transferred to non-technical section from technical section amounting to TL 119,051,082 is not included.
(**) Deferred tax income amounting TL 17,011,542 is presented as income tax.

(CURRENCY: TURKISH LIRA (TL))

| | Motor third party liability | Health | Motor vehicles | Fire and natural disasters | Other | Unallocated | Total |
|---|---|---|---|---|---|---|---|
| 1 January - 31 December 2011 | | | | | | | |
| 1- Earned Premiums (Net of Reinsurer Share) | 268,857,758 | 160,421,840 | 510,003,047 | 111,768,766 | 210,332,463 | -- | 1,261,383,874 |
| 1,1- Written Premiums (Net of Reinsurer Share) | 360,664,692 | 172,966,579 | 600,603,351 | 117,288,868 | 233,125,654 | -- | 1,484,649,144 |
| 1,2- Change in Reserve for Unearned Premiums (Net of Reinsurer Shares and Less the Amounts Carried Forward) | (79,115,005) | (12,544,739) | (90,600,304) | (5,520,102) | (22,629,960) | -- | (210,410,110) |
| 1,3- Change in Reserve for Unexpired Risks (Net of Reinsurer Share and Less the Amounts Carried Forward) | (12,691,929) | -- | -- | -- | (163,231) | -- | (12,855,160) |
| 2- Other Technical Income (Net of Reinsurer Share) | 273,684 | 174,213 | 571,041 | 41,565 | 261,103 | -- | 1,321,606 |
| 3- Accrued Salvage and Subrogation Income | 2,790,237 | (17,347) | 8,160,568 | 1,865,711 | 1,124,547 | -- | 13,923,716 |
| Technical Income (*) | 271,921,679 | 160,578,706 | 518,734,656 | 113,676,042 | 211,718,113 | -- | 1,276,629,196 |
| 1- Incurred Losses (Net of Reinsurer Share) | (267,797,514) | (126,516,675) | (417,631,774) | (52,524,982) | (102,925,376) | -- | (967,396,321) |
| 1,1- Claims Paid (Net of Reinsurer Share) | (232,613,555) | (128,196,917) | (413,465,534) | (47,148,351) | (84,868,059) | -- | (906,292,416) |
| 1,2- Change in Provisions for Outstanding Claims (Net of Reinsurer Share and Less the Amounts Carried Forward) | (35,183,959) | 1,680,242 | (4,166,240) | (5,376,631) | (18,057,317) | -- | (61,103,905) |
| 2- Change in Other Technical Reserves (Net of Reinsurer Share and Less the Amounts Carried Forward) | -- | -- | (1,526,069) | (508,884) | (1,683,643) | -- | (3,718,596) |
| 3- Operating Expenses | (74,288,788) | (45,784,150) | (146,228,359) | (39,062,067) | (88,175,488) | -- | (393,538,852) |
| 4- Other Technical Provisions | (1,382,063) | | | | (17,153) | | (1,399,216) |
| Technical Expense | (343,468,365) | (172,300,825) | (565,386,202) | (92,095,933) | (192,801,660) | -- | (1,366,052,985) |
| Investment Income | | | | | | 150,279,536 | 150,279,536 |
| Investment Expense (*) | | | | | | (62,087,595) | (62,087,595) |
| Other (**) | | | | | | (1,067,442) | (1,067,442) |
| Net profit before tax | | | | | | | (2,299,290) |
| Income tax | | | | | | 6,368,048 | 6,368,048 |
| Net profit | | | | | | | 4,068,758 |

(*) Investment income transferred to non-technical section from technical section amounting to TL 79,355,436 is not included.
(**) Deferred tax income amounting TL 6,368,048 is presented as income tax.

(CURRENCY: TURKISH LIRA (TL))

## 6 Tangible assets

Movements in tangible assets in the period from 1 January to 31 December 2012 are presented below:

| | 1 January 2012 | Additions | Disposals | 31 December 2012 |
|---|---|---|---|---|
| *Cost:* | | | | |
| Investment properties *(Note 7)* | 6,982,776 | -- | -- | 6,982,776 |
| Buildings for own use | 6,352,187 | 35,542 | -- | 6,387,729 |
| Machinery and equipment | 25,657,096 | 674,299 | (62,435) | 26,268,960 |
| Furniture and fixtures | 8,977,764 | 62,083 | (8,294) | 9,031,553 |
| Vehicles | 1,340,671 | -- | (40,820) | 1,299,851 |
| 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 |
| | 57,433,128 | 1,027,032 | (284,260) | 58,175,900 |
| *Accumulated depreciation:* | | | | |
| Investment properties *(Note 7)* | 3,299,242 | 139,656 | -- | 3,438,898 |
| Buildings for own use | 2,093,813 | 127,458 | -- | 2,221,271 |
| Machinery and equipment | 17,721,482 | 3,203,656 | (16,996) | 20,908,142 |
| Furniture and fixtures | 8,172,801 | 325,742 | (3,139) | 8,495,404 |
| Motor vehicles | 553,358 | 245,462 | (34,269) | 764,551 |
| 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 |
| | 39,106,165 | 4,331,859 | (188,764) | 43,249,260 |
| Carrying amounts | 18,326,963 | | | 14,926,640 |

Movements in tangible assets in the period from 1 January to 31 December 2011 are presented below:

| | 1 January 2011 | Additions | Disposals | 31 December 2011 |
|---|---|---|---|---|
| *Cost:* | | | | |
| Investment properties *(Note 7)* | 6,982,776 | -- | -- | 6,982,776 |
| Buildings for own use | 6,419,649 | -- | (67,462) | 6,352,187 |
| Machinery and equipment | 24,381,873 | 1,296,468 | (21,245) | 25,657,096 |
| Furniture and fixtures | 8,746,983 | 230,781 | -- | 8,977,764 |
| Vehicles | 1,041,865 | 453,624 | (154,818) | 1,340,671 |
| Other tangible assets (including leasehold improvements) | 3,533,374 | 250,195 | -- | 3,783,569 |
| Leased tangible assets | 4,339,065 | -- | -- | 4,339,065 |
| | 55,445,585 | 2,231,068 | (243,525) | 57,433,128 |
| *Accumulated depreciation:* | | | | |
| Investment properties *(Note 7)* | 3,159,587 | 139,655 | -- | 3,299,242 |
| Buildings for own use | 2,003,330 | 127,044 | (36,561) | 2,093,813 |
| Machinery and equipment | 14,485,613 | 3,244,378 | (8,509) | 17,721,482 |
| Furniture and fixtures | 7,744,418 | 428,383 | -- | 8,172,801 |
| Motor vehicles | 475,322 | 221,867 | (143,831) | 553,358 |
| 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 |
| | 34,705,683 | 4,589,383 | (188,901) | 39,106,165 |
| Carrying amounts | 20,739,902 | | | 18,326,963 |

(CURRENCY: TURKISH LIRA (TL))

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

There is not any mortgage over tangible assets of the Company as at 31 December 2012 and 31 December 2011.

## 7 Investments in associate

The Company's net book value of TL 3,543,878 (31 December 2011: TL 3,683,534) as shown in the valuation work performed by the fair value of investment properties is amount of TL 37,505,463.The fair value of real estate carried out by an independent valuation firm is authorized by the Capital Markets Board of Turkey. Rental income on investment properties were obtained TL 1,509,568 (31 December 2011: TL 1,286,113).

## 8 Intangible assets

Movements in intangible assets in the period from 1 January to 31 December 2012 are presented below:

| | 1 January 2012 | Additions | Disposals | 31 December 2012 |
|---|---|---|---|---|
| *Cost:* | | | | |
| Goodwill | 16,250,000 | -- | -- | 16,250,000 |
| Advances given for intangible assets | 14,336,428 | 17,380,915 | -- | 31,717,343 |
| Other intangible assets | 16,560,910 | 5,083,052 | -- | 21,643,962 |
| | 47,147,338 | 22,463,967 | -- | 69,611,305 |
| *Accumulated amortization:* | | | | |
| Other intangible assets | 11,017,137 | 4,108,463 | -- | 15,125,600 |
| | 11,017,137 | 4,108,463 | -- | 15,125,600 |
| Carrying amounts | 36,130,201 | | | 54,485,705 |

Movements in intangible assets in the period from 1 January to 31 December 2011 are presented below:

| | 1 January 2011 | Additions | Disposals | 31 December 2011 |
|---|---|---|---|---|
| *Cost:* | | | | |
| Goodwill | 16,250,000 | -- | -- | 16,250,000 |
| Advances given for intangible assets | 5,691,886 | 8,644,542 | -- | 14,336,428 |
| Other intangible assets | 11,709,734 | 4,851,176 | -- | 16,560,910 |
| | 33,651,620 | 13,495,718 | -- | 47,147,338 |
| *Accumulated amortization:* | | | | |
| Other intangible assets | 7,686,723 | 3,330,414 | -- | 11,017,137 |
| | 7,686,723 | 3,330,414 | -- | 11,017,137 |
| Carrying amounts | 25,964,897 | | | 36,130,201 |

## 9 Investments in associates

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | Carrying value | Participation rate | Carrying value | Participation rate |
| Anadolu Hayat Emeklilik A.Ş. | 252,000,000 | 20.0% | 164,400,000 | 20.0% |
| Investments in associates, net | 252,000,000 | | 164,400,000 | |
| Total financial assets *(Note 4.2)* | 249,000,000 | | 164,400,000 | |

| Name | Total assets | Shareholders' equity | Retained earnings | Profit for the period | Audited or not | Period |
|---|---|---|---|---|---|---|
| Anadolu Hayat Emeklilik A.Ş. (consolidated financial statements) | 7,226,896,280 | 529,485,605 | 9,400,159 | 80,952,075 | Audited | 31 December 2012 |

(CURRENCY: TURKISH LIRA (TL))

The Company has TL 8,000,000 of dividend income from associates.

## 10 Reinsurance assets and liabilities

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

| Reinsurance assets | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Reserve for unearned premiums, ceded *(Note 17)* | 218,883,986 | 203,119,196 |
| Provision for outstanding claims, ceded *(Note 4.2)*, *(Note 17)* | 89,440,431 | 58,571,323 |
| Commission income accrual from reinsurers *(Note 12)* | 2,365,311 | 6,063,976 |
| Cash deposited to reinsurance companies *(Note 12)* | 3,906,064 | 3,059,613 |
| Reinsurers share in the provision for subrogation and salvage receivables | 3,631,187 | 336,917 |
| Total | 318,226,979 | 271,151,025 |

There is no impairment losses recognised for reinsurance assets.

| Reinsurance liabilities | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Payables to the reinsurers related to premiums written *(Note 19)* | 106,959,068 | 110,441,826 |
| Deferred commission income *(Note 19)* | 34,980,352 | 33,579,034 |
| Commission payables to the reinsurers related to written premiums *(Note 23)* | 6,451,900 | 4,698,961 |
| Cash deposited by reinsurance companies *(Note 19)* | 3,161,917 | 1,814,418 |
| Total | 106,959,068 | 150,534,239 |

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

| | 31 December 2012 | 30 December 2011 |
|---|---|---|
| Premiums ceded during the period *(Note 17)* | (454,182,023) | (417,467,199) |
| Reserve for unearned premiums, ceded at the beginning of the period *(Note 17)* | (203,119,196) | (137,562,021) |
| Reserve for unearned premiums, ceded at the end of the period *(Note 17)* | 218,883,986 | 203,119,196 |
| Premiums earned, ceded *(Note 17)* | (438,417,233) | (351,910,024) |
| | | |
| Claims paid, ceded during the period *(Note 17)* | 128,528,002 | 111,970,656 |
| Provision for outstanding claims, ceded at the beginning of the period *(Note 17)* | (58,571,323) | (75,717,660) |
| Provision for outstanding claims, ceded at the end of the period *(Note 17)* | 89,440,431 | 58,571,323 |
| Claims incurred, ceded *(Note 17)* | 159,397,110 | 94,824,319 |
| | | |
| Commission income accrued from reinsurers during the period *(Note 32)* | 61,914,124 | 65,450,568 |
| Deferred commission income at the beginning of the period *(Note 19)* | 33,579,034 | 22,304,401 |
| Deferred commission income at the end of the period *(Note 19)* | (34,980,352) | (33,579,034) |
| Commission income earned from reinsurers *(Note 32)* | 60,512,806 | 54,175,935 |
| | | |
| Commission income accrual from reinsurers | 2,365,311 | 6,063,976 |
| | | |
| Total, net | (216,142,006) | (196,845,794) |

(CURRENCY: TURKISH LIRA (TL))

## 11 Financial assets

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Available for sale financial assets | 224,035,917 | 164,631,610 |
| Held to maturity financial assets | 89,590,740 | 91,460,928 |
| Financial assets held for trading | 47,593,247 | 85,608,329 |
| Impairment loss on available for sale financial assets | (5,797,612) | (5,797,612) |
| Total | 355,422,292 | 335,903,255 |

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

| | 31 December 2012 | | | |
|---|---|---|---|---|
| | Face Value | Cost | Fair Value | Carrying Value |
| *Debt instruments:* | | | | |
| Government bonds - TL | 39,000,679 | 40,021,561 | 40,546,955 | 40,546,955 |
| Private sector bonds - TL | 52,072,198 | 49,014,264 | 51,739,602 | 51,739,602 |
| *Issued by İş Bankası (Note 45)* | *49,339,436* | *46,438,457* | *49,009,793* | *49,009,793* |
| *Others* | *2,732,762* | *2,575,807* | *2,729,809* | *2,729,809* |
| | 91,072,877 | 89,035,825 | 92,286,557 | 92,286,557 |
| *Other non-fixed income financial assets:* | | | | |
| Equity shares | 50,926,584 | 105,818,808 | 131,749,360 | 131,749,360 |
| Impairment loss on equity shares | -- | -- | (5,797,612) | (5,797,612) |
| | 50,926,584 | 105,818,808 | 125,951,748 | 125,951,748 |
| Total available for sale financial assets *(Note 4.2)* | 141,999,461 | 194,854,633 | 218,238,305 | 218,238,305 |

| | 31 December 2011 | | | |
|---|---|---|---|---|
| | Face Value | Cost | Fair Value | Carrying Value |
| *Debt instruments:* | | | | |
| Government bonds - TL | 43,586,949 | 42,401,923 | 42,324,256 | 42,324,256 |
| Private sector bonds - TL | 53,722,338 | 49,677,627 | 52,128,450 | 52,128,450 |
| *Issued by İş Bankası (Note 45)* | *52,511,238* | *48,466,107* | *50,886,817* | *50,886,817* |
| *Others* | *1,211,100* | *1,211,520* | *1,241,633* | *1,241,633* |
| | 97,309,287 | 92,079,550 | 94,452,706 | 94,452,706 |
| *Other non-fixed income financial assets:* | | | | |
| Equity shares | 46,468,053 | 71,529,049 | 70,178,904 | 70,178,904 |
| Impairment loss on equity shares | -- | -- | (5,797,612) | (5,797,612) |
| | 46,468,053 | 71,529,049 | 64,381,292 | 64,381,292 |
| Total available for sale financial assets *(Note 4.2)* | 143,777,340 | 163,608,599 | 158,833,998 | 158,833,998 |

(CURRENCY: TURKISH LIRA (TL))

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

| | 31 December 2012 | | | |
|---|---|---|---|---|
| | Face Value | Cost | Fair Value | Carrying Value |
| *Debt instruments:* | | | | |
| Private sector bonds - TL | 2,000,000 | 2,000,000 | 2,091,292 | 2,091,292 |
| Government bonds - TL | 900,000 | 912,696 | 903,870 | 903,870 |
| Reverse repo receivables | | 5,541,506 | 5,542,173 | 5,542,173 |
| | | 8,454,202 | 8,537,335 | 8,537,335 |
| *Other non-fixed income financial assets:* | | | | |
| Investment funds | 1,020,695,131 | 25,813,287 | 34,606,532 | 34,606,532 |
| *Founded by Iş Bankası (Note 45)* | 120,605,000 | 9,009,287 | 13,831,486 | 13,831,486 |
| *Founded by Iş Portföy Yönetimi A.Ş.(Note 45)* | 900,000,000 | 9,000,000 | 9,903,600 | 9,903,600 |
| *Founded by Işbank GmbH (Note 45)* | 90,131 | 7,804,000 | 10,871,446 | 10,871,446 |
| Equity shares | 2,370,281 | 4,825,566 | 4,449,380 | 4,449,380 |
| | | 30,638,853 | 39,055,912 | 39,055,912 |
| Total financial assets held for trading *(Note 4,2)* | | 39,093,055 | 47,593,247 | 47,593,247 |

| | 31 December 2011 | | | |
|---|---|---|---|---|
| | Face Value | Cost | Fair Value | Carrying Value |
| *Debt instruments:* | | | | |
| Private sector bonds - TL | 13,435,696 | 13,445,323 | 13,582,276 | 13,582,276 |
| Government bonds - TL | 8,612,608 | 8,500,000 | 8,442,412 | 8,442,412 |
| Reverse repo receivables | 2,565,151 | 2,565,151 | 2,567,331 | 2,567,331 |
| | | 24,510,474 | 24,592,019 | 24,592,019 |
| *Other non-fixed income financial assets:* | | | | |
| Investment funds | 1,538,379,205 | 42,739,909 | 51,556,375 | 51,556,375 |
| *Founded by Iş Bankası (Note 45)* | *638,289,074* | *25,935,909* | *35,396,270* | *35,396,270* |
| *Founded by Iş Portföy Yönetimi A.Ş.(Note 45)* | *900,000,000* | *9,000,000* | *8,909,100* | *8,909,100* |
| *Founded by Işbank GmbH (Note 45)* | *90,131* | *7,804,000* | *7,251,005* | *7,251,005* |
| Equity shares | 4,016,317 | 20,280,275 | 15,312,534 | 15,312,534 |
| | | 63,020,184 | 66,868,909 | 66,868,909 |
| Total financial assets held for trading *(Note 4.2)* | | 87,530,658 | 91,460,928 | 91,460,928 |

(CURRENCY: TURKISH LIRA (TL))

As at 31 December 2012 and 31 December 2011, the Company'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 |

All debt instruments presented above are publicly traded in active markets. As at 31 December 2012, equity shares classified as available for sale financial assets with a carrying amount of TL 4,041,304 are not publicly traded (31 December 2011: TL 3,971,463).

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

There is no financial asset that is overdue but not impaired among the Company's financial investments portfolio. As at 31 December 2012, TL 5,797,612 of impairment loss is recognised for equity shares classified as available for sale in the accompanying unconsolidated financial statements (31 December 2011: TL 5,797,612).

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

| Year | Change in value increase/ (decrease) | Total increase in value |
|---|---|---|
| 2012 | 115,217,914 | 212,235,915 |
| 2011 | (136,717,002) | 97,018,001 |
| 2010 | 30,884,754 | 233,735,003 |

Movements of the financial assets during the period are presented below:

| | 31 December 2012 | | | |
|---|---|---|---|---|
| | (*) Trading | Available for sale | Held to maturity | Total |
| Balance at the beginning of the period | 88,893,597 | 158,833,998 | 85,608,329 | 333,335,924 |
| Acquisitions during the period | -- | 537,072,037 | -- | 537,072,037 |
| Disposals (sale and redemption) | (51,285,728) | (509,102,173) | (846,956) | (561,234,857) |
| Change in the fair value of financial assets *(Note 15)* | 4,432,039 | 30,943,758 | -- | 35,375,797 |
| Change in amortized cost of the financial assets | -- | (2,765,472) | 4,829,367 | 2,063,895 |
| Bonus shares acquired | 11,166 | 3,256,157 | -- | 3,267,323 |
| Balance at the end of the period | 42,051,074 | 218,238,305 | 89,590,740 | 349,880,119 |

(*) Amount of reverse repo to TL 5,542,173 (31 December 2011: TL 2,567,331) are excluded.

(CURRENCY: TURKISH LIRA (TL))

| | 31 December 2011 | | | |
|---|---|---|---|---|
| | Trading | Available for sale | Held to maturity | Total |
| Balance at the beginning of the period | 242,895,603 | 66,054,619 | 130,409,487 | 439,359,709 |
| Acquisitions during the period | 186,093,146 | 360,897,089 | 19,999,997 | 566,990,232 |
| Disposals (sale and redemption) | (335,720,499) | (253,868,096) | (66,901,903) | (656,490,498) |
| Change in the fair value of financial assets *(Note 15)* | (4,499,394) | (24,697,840) | -- | (29,197,234) |
| Change in amortized cost of the financial assets | -- | 2,373,169 | 2,100,748 | 4,473,917 |
| Bonus shares acquired | 124,741 | 8,075,057 | -- | 8,199,798 |
| Balance at the end of the period | 88,893,597 | 158,833,998 | 85,608,329 | 333,335,924 |

(*) Amount of reverse repo to TL 2,567,331 (31 December 2010: TL 660,752) are excluded.

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 |

## 12 Loans and receivables

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Receivables from main operations *(Note 4.2)* | 646,879,957 | 553,528,183 |
| Other receivables *(Note 4.2)* | 2,195,501 | 1,869,978 |
| Income prepaid expenses *(Note 4.2), (Note 10)* | 2,365,311 | 6,063,976 |
| Other current assets *(Note 4.2)* | 629,359 | 1,029,887 |
| Receivables from related parties *(Note 4.2)* | 1,445,693 | 90,230 |
| Total | 653,515,821 | 562,582,254 |
| Short-term receivables | 653,515,821 | 562,582,254 |
| Long and medium-term receivables | -- | -- |
| Total | 653,515,821 | 562,582,254 |

(CURRENCY: TURKISH LIRA (TL))

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Receivables from agencies, brokers and intermediaries | 552,722,660 | 445,019,795 |
| Salvage and subrogation receivables | 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 |
| Receivables from reinsurance operations | 48,944,928 | 43,504,762 |
| Cash deposited to insurance and reinsurance companies *(Note 4.2), (Note 10)* | 3,906,064 | 3,059,613 |
| Provisions for receivables from insurance operations – subrogation receivables | (9,137,211) | (4,649,888) |
| Doubtful receivables from insurance operations – subrogation receivables | 63,303,500 | 59,674,250 |
| Provisions for doubtful receivables from insurance operations – subrogation receivables *(Note 4.2)* | (63,303,500) | (59,674,250) |
| Doubtful receivables from main operations – premium receivables | 24,693,112 | 22,777,314 |
| Provisions for doubtful receivables from main operations – premium receivables *(Note 4.2)* | (24,693,112) | (22,777,314) |
| Receivables from main operations | 646,879,957 | 553,528,183 |

As at 31 December 2012 and 31 December 2011, the details of mortgages and other guarantees for the Company's receivables are presented below:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Mortgage notes | 73,620,987 | 75,497,087 |
| Letters of guarantees | 60,373,577 | 53,762,931 |
| Other guarantees | 8,583,108 | 8,458,660 |
| Government bonds and treasury bills | 3,083,233 | 3,055,221 |
| Total | 145,660,905 | 140,773,899 |

### Provisions for overdue receivables and receivables not due yet

a) Receivables under legal or administrative follow up (due): TL 24,693,112 (31 December 2011: TL 22,777,314).

b) Provision for subrogation receivables under legal or administrative follow up: TL 72,440,711 (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 instruments

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

## 14 Cash and cash equivalents

As at 31 December 2012 and 31 December 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 | 59,000 | 61,089 | 61,089 | 66,524 |
| Received cheques | -- | -- | -- | -- |
| Bank deposits | 810,515,425 | 691,318,942 | 691,318,942 | 486,915,108 |
| 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 | 968,521,375 | 911,631,717 | 911,631,717 | 610,044,949 |
| Bank deposits – blocked (*) *(Note 17)* | (125,966,707) | (130,702,765) | (130,702,765) | (81,634,906) |
| Time deposits with maturities longer than 3 months | (315,826,956) | (223,552,501) | (223,552,501) | -- |
| Interest accruals on banks deposits | (2,299,223) | (3,944,703) | (3,944,703) | (2,413,533) |
| Cash and cash equivalents in the statement of cash flows | 524,428,489 | 553,431,748 | 553,431,748 | 525,996,510 |

(*) As at 31 December 2012 and 31 December 2011 cash collateral kept in favour of the Turkish Treasury as a guarantee for the insurance activities.

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Foreign currency denominated bank deposits | | |
| - time deposits | 47,396,316 | 33,324,964 |
| - demand deposits | 14,730,781 | 10,350,842 |
| Bank deposits in Turkish Lira | | |
| - time deposits | 745,383,122 | 638,773,282 |
| - demand deposits | 3,005,206 | 8,869,854 |
| Bank deposits | 810,515,425 | 691,318,942 |

## 15 Equity

### Paid in capital

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

İş Bankası sold its share in the capital of the Company with a nominal value of TL 177,650,110 to another İş Bankası group company; namely Milli Reasürans T.A.Ş with a share price of TL 248,710,154 as at 30 September 2010. After the sale, İş Bankası does not have direct share in the Company and share of Milli Reasürans T.A.Ş, increased to 57.31% amounting to TL 286,550,106,

The Company does not increase its share capital in the current period.

As at 31 December 2012, the issued share capital of the Company is TL 500,000,000 (31 December 2011: TL 500,000,000) and the share capital of the Company consists of 50,000,000,000 (31 December 2011: 50,000,000,000 shares) issued shares with TL 0.01 nominal value each. The Company's share capital is divided into group A and group B shares. The share capital is represented by 150 Group A shares of TL 0.01 each and Group B shares of the remaining amount. The only privilege of Group A shares is about voting right at General Assembly meetings as Group A shares have 10 voting rights whereas Group B shares have 1 voting right.

(CURRENCY: TURKISH LIRA (TL))

### 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 in 2010 amounting to TL 8,081,516 and in 2011 amounting to TL 80,025 is classified as other capital reserves.

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Other capital reserves at the beginning of the period | 8,081,516 | - |
| Transfer from profit | 80,025 | 8,081,516 |
| Other capital reserves at the end of the period | 8,161,541 | 8,081,516 |

### 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 | 30,438,674 | 28,965,434 |
| Transfer from profit | 199,437 | 1,473,240 |
| Legal reserves at the end of the period | 30,638,111 | 30,438,674 |

### Extraordinary reserves

The movements of extraordinary reserves are presented below:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Extraordinary reserves at the beginning of the period | 14,712,995 | -- |
| Transfer from profit | 3,410,366 | 14,712,995 |
| Extraordinary reserves at the end of the period | 18,123,361 | 14,712,995 |

### Statutory reserves

The movements of statutory reserves are presented below:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Statutory reserves at the beginning of the period | 6,614,152 | 4,110,050 |
| Transfer from profit | 378,930 | 2,504,102 |
| Statutory reserves at the end of the period | 6,993,082 | 6,614,152 |

(CURRENCY: TURKISH LIRA (TL))

### Valuation of financial assets

Movement of fair value reserves of available for sale financial assets and associates are presented below:

| | 31 December 2012 | | | 31 December 2011 | | |
|---|---|---|---|---|---|---|
| | Available for sale financial assets | Associates | Total | Available for sale financial assets | Associates | Total |
| Fair value reserves at the beginning of the period | (2,350,131) | 99,368,132 | 97,018,001 | 21,766,887 | 211,968,116 | 233,735,003 |
| Change in the fair value | 30,943,758 | 87,600,000 | 118,543,758 | (24,697,840) | (112,599,984) | (137,297,824) |
| Net gains transferred to the statement of income | (996,384) | -- | (996,384) | (8,961) | -- | (8,961) |
| Deferred tax effect | (2,329,460) | -- | (2,329,460) | 589,783 | -- | 589,783 |
| Fair value reserves at the end of the period | 25,267,783 | 186,968,132 | 212,235,915 | (2,350,131) | 99,368,132 | 97,018,001 |

### Other profit reserves

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

Accordingly, the Company initially transferred total provisions amounting to TL 96,036,157, including earthquake provisions reserved as at 31 December 2006 and related gains obtained from investment of this amount, to the reserve accounts under equity, TL 51,846,111 of this amount is used for capital increase in 2010 and the remaining amount is TL 44,190,046.

### 16 Other reserves and equity component of DPF

As at 31 December 2012 and 31 December 2011, change in fair values of available-for-sale financial assets which is presented as "valuation of financial assets" and earthquake provisions provided in the previous years presented under "other profit reserves" are explained in detail in Note 15 – *Equity* above. As at 31 December 2012 and 31 December 2011, the Company 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 Company. Estimation of the insurance contract liabilities contains several ambiguities by nature. The Company makes calculation of the related insurance technical provisions accordance with the Insurance Legislation and reflects them into financial statements as mentioned in Note 2 – *Summary of significant accounting policies*.

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Reserve for unearned premiums, gross | 1,104,218,773 | 1,014,113,766 |
| Reserve for unearned premiums, ceded *(Note 10)* | (218,883,986) | (203,119,196) |
| Reserve for unearned premiums, SSI share | (20,200,015) | (14,079,233) |
| Reserves for unearned premiums, net | 865,134,772 | 796,915,337 |
| Provision for outstanding claims, gross | 578,790,894 | 424,232,023 |
| Provision for outstanding claims, ceded *(Note 10)* | (89,440,431) | (58,571,323) |
| Provision for outstanding claims, net | 489,350,463 | 365,660,700 |
| Reserve for unexpired risks, net | 4,097,523 | 18,720,464 |
| Equalization provision, net (*) | 32,157,249 | 20,519,045 |
| General provision, net | 7,702,761 | 7,702,761 |
| Other provisions | -- | 5,413,605 |
| Other technical provisions, net | 39,860,010 | 33,635,411 |
| Total technical provisions, net | 1,398,442,768 | 1,214,931,912 |
| Short-term | 1,358,582,758 | 1,181,296,501 |
| Medium and long-term | 39,860,010 | 33,635,411 |
| Total technical provisions, net | 1,398,442,768 | 1,214,931,912 |

(*) Net losses (after reinsurance) resulted from earthquake occurred in Van amounting to TL 577,675 (31 December 2011: TL 5,824,550) are decreased from prior periods' equalization provision based on the regulation.

(CURRENCY: TURKISH LIRA (TL))

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

| | 31 December 2012 | | |
|---|---|---|---|
| Reserve for unearned premiums | Gross | Ceded | Net |
| Reserve for unearned premiums at the beginning of the period | 1,014,113,766 | (203,119,196) | 810,994,570 |
| Premiums written during the period | 2,234,633,499 | (454,182,023) | 1,780,451,476 |
| Premiums earned during the period | (2,144,528,492) | 438,417,233 | (1,706,111,259) |
| Reserve for unearned premiums at the end of the period | 1,104,218,773 | (218,883,986) | 885,334,787 |

| | 31 December 2011 | | |
|---|---|---|---|
| Reserve for unearned premiums | Gross | Ceded | Net |
| Reserve for unearned premiums at the beginning of the period | 724,067,248 | (137,562,021) | 586,505,227 |
| Premiums written during the period | 1,926,090,486 | (417,467,199) | 1,508,623,287 |
| Premiums earned during the period | (1,636,043,968) | 351,910,024 | (1,284,133,944) |
| Reserve for unearned premiums at the end of the period | 1,014,113,766 | (203,119,196) | 810,994,570 |

| | 31 December 2012 | | |
|---|---|---|---|
| Provision for outstanding claims | Gross | Ceded | Net |
| Provision for outstanding claims at the beginning of the period | 424,232,023 | (58,571,323) | 365,660,700 |
| Claims reported during the period and changes in the estimations of provisions for outstanding claims provided at the beginning of the period | 1,526,413,435 | (159,397,110) | 1,367,016,325 |
| Claims paid during the period | (1,371,854,564) | 128,528,002 | (1,243,326,562) |
| Provision for outstanding claims at the end of the period | 578,790,894 | (89,440,431) | 489,350,463 |

| | 31 December 2011 | | |
|---|---|---|---|
| Provision for outstanding claims | Gross | Ceded | Net |
| Provision for outstanding claims at the beginning of the period | 380,274,455 | (75,717,660) | 304,556,795 |
| Claims reported during the period and changes in the estimations of provisions for outstanding claims provided at the beginning of the period | 1,062,220,640 | (94,824,319) | 967,396,321 |
| Claims paid during the period | (1,018,263,072) | 111,970,656 | (906,292,416) |
| Provision for outstanding claims at the end of the period | 424,232,023 | (58,571,323) | 365,660,700 |

(CURRENCY: TURKISH LIRA (TL))

### Claim development tables

The basic assumption used in the estimation of provisions for outstanding claims is the Company's past experience on claim developments. Judgment is used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. The sensitivity of certain assumptions like legislative change, uncertainty in the estimation process, etc, is not possible to quantify. Furthermore, because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claim provisions are not known with certainty at the reporting date. Consequently, the ultimate liabilities will vary as a result of subsequent developments. Differences resulting from reassessment of the ultimate liabilities are recognized in subsequent financial statements.

Development of insurance liabilities enables to measure the performance of the Company in estimation of its ultimate claim losses. The amounts presented on the top of the below tables show the changes in estimations of the Company for the claims in subsequent years after claim years. The amounts presented on the below of the below tables give the reconciliation of total liabilities with provision for outstanding claims presented in the accompanying financial statements.

| | | | 31 December 2012 | | | |
|---|---|---|---|---|---|---|
| Claim year | 2008 | 2009 | 2010 | 2011 | 2012 | Total |
| Claim year | 751,438,819 | 891,236,728 | 842,056,342 | 1,053,363,672 | 1,462,420,895 | 5,000,516,456 |
| 1 year later | 723,070,057 | 896,753,774 | 852,281,479 | 1,120,458,560 | -- | 3,592,563,870 |
| 2 years later | 712,927,015 | 910,229,039 | 862,752,798 | -- | -- | 2,485,908,852 |
| 3 years later | 726,235,128 | 919,855,305 | -- | -- | -- | 1,646,090,433 |
| 4 years later | 731,881,665 | -- | -- | -- | -- | 731,881,665 |
| Current estimate of cumulative claims | 731,881,665 | 919,855,305 | 862,752,798 | 1,120,458,560 | 1,462,420,895 | 5,097,369,223 |
| Cumulative payments to date | 703,886,217 | 882,846,914 | 825,020,800 | 1,056,226,922 | 1,098,367,086 | 4,566,347,939 |
| Liability recognized in the financial statements | 27,995,448 | 37,008,392 | 37,731,999 | 64,231,638 | 364,053,809 | 531,021,286 |
| Liability recognized before 2007 | -- | -- | -- | -- | 47,769,608 | 47,769,608 |
| Total gross outstanding claims provision presented in the financial statements at the end of the period | | | | | | 578,790,894 |

| | | | 31 December 2011 | | | |
|---|---|---|---|---|---|---|
| Claim year | 2007 | 2008 | 2009 | 2010 | 2011 | Total |
| Claim year | 743,712,717 | 755,862,625 | 897,093,249 | 848,434,318 | 1,078,872,014 | 4,323,974,923 |
| 1 year later | 736,668,191 | 729,187,381 | 906,818,218 | 859,824,239 | -- | 3,232,498,029 |
| 2 years later | 735,531,809 | 720,130,539 | 920,116,900 | -- | -- | 2,375,779,248 |
| 3 years later | 738,171,462 | 733,375,064 | -- | -- | -- | 1,471,546,526 |
| 4 years later | 741,935,442 | -- | -- | -- | -- | 741,935,442 |
| Current estimate of cumulative claims | 741,935,442 | 733,375,064 | 920,116,900 | 859,824,239 | 1,078,872,014 | 4,334,123,659 |
| Cumulative payments to date | (718,799,523) | (697,772,233) | (873,447,946) | (814,217,496) | (834,000,964) | (3,938,238,162) |
| Liability recognized in the financial statements | 23,135,919 | 35,602,831 | 46,668,954 | 45,606,743 | 244,871,050 | 395,885,497 |
| Liability recognized before 2006 | -- | -- | -- | -- | 28,346,526 | 28,346,526 |
| Total gross outstanding claims provision presented in the financial statements at the end of the period | | | | | | 424,232,023 |

(CURRENCY: TURKISH LIRA (TL))

### Total amount of guarantee that should be placed by the Company for life and non-life branches and guarantees placed for the life and non-life branches in respect of related assets

| | 31 December 2012 | | |
|---|---|---|---|
| | 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 |

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

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

### Company's number of life insurance policies, additions, disposals during the period and the related mathematical reserves

None.

### Distribution of new life insurance policyholders in terms of numbers and gross and net premiums as individual or group during the period

None.

### Distribution of mathematical reserves for life insurance policyholders who left the Company's portfolio as individual or group during the period

None.

### Deferred commission expenses

The Company capitalizes commissions paid to the intermediaries related to policy production under short-term and long-term prepaid expenses. As at 31 December 2012, short-term prepaid expenses amounting to TL 162,793,013 (31 December 2011: TL 161,112,385) consist of deferred commission expenses amounting to TL 156,049,462 (31 December 2011: TL 152,210,305) and other prepaid expenses amounting to TL 6,743,551 (31 December 2010: TL 8,902,080). Long-term prepaid expenses amounting TL 564,809 (31 December 2011: TL 561,891) are composed of other prepaid expenses.

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Deferred commission expenses at the beginning of the period | 152,210,305 | 110,586,806 |
| Commissions accrued during the period *(Note 32)* | 352,774,055 | 319,140,020 |
| Commissions expensed during the period (*) | (348,934,898) | (277,516,521) |
| Deferred commission expenses at the end of the period | 156,049,462 | 152,210,305(*) |

(*) 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 recognised as commission expense amounting to TL 149,617,083 *(Note 32)* and personnel expense amounting to TL 2,593,222.

(CURRENCY: TURKISH LIRA (TL))

### Individual pension funds

None.

## 18 Investment contract liabilities

None.

## 19 Trade and other payables and deferred income

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Payables from main operations | 198,973,610 | 172,569,477 |
| Other payables | 61,006,748 | 43,362,055 |
| Deferred income and expense accruals *(Note 10)* | 34,980,352 | 33,579,034 |
| Taxes and funds payable and other similar obligations | 16,325,270 | 16,770,948 |
| Due to related parties *(Note 45)* | 15,494 | 15,494 |
| Total | 311,301,474 | 266,297,008 |
| | | |
| Short-term liabilities | 286,318,104 | 249,572,704 |
| Long-term liabilities | 24,983,370 | 16,724,304 |
| Total | 311,301,474 | 266,297,008 |

As at 31 December 2012, other payables amounting to TL 61,006,748 (31 December 2011: TL 43,362,055) 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 24,843,716 (31 December 2011: TL 17,271,570) and deposits and guarantees received amounting to TL 3,167,035 (31 December 2011: TL 2,517,131).

Short/long term deferred income and expense accruals are comprised of deferred commission income *(Note 10)*.

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Payables to reinsurance companies *(Note 10)* | 106,959,068 | 110,441,826 |
| Payables to agencies, brokers and intermediaries | 24,690,781 | 24,551,738 |
| Total payables arising from insurance operations | 131,649,849 | 134,993,564 |
| | | |
| Payables arising from other operating activities | 64,161,844 | 35,761,495 |
| Cash deposited by insurance and reinsurance companies *(Note 10)* | 3,161,917 | 1,814,418 |
| Payables arising from main operations | 198,973,610 | 172,569,477 |

Corporate tax liabilities and prepaid taxes are disclosed below:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Corporate tax liabilities | -- | -- |
| Taxes paid during the period | 10,640,156 | 7,938,909 |
| Corporate tax assets, net | 10,640,156 | 7,938,909 |

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

None.

## 20 Financial liabilities

The Company has no financial liabilities as at 31 December 2012 (31 December 2011: None).

(CURRENCY: TURKISH LIRA (TL))

## 21 Deferred tax

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| | Deferred tax assets/(liabilities) | Deferred tax assets/(liabilities) |
| Deferred tax effect of current period tax losses *(Note 2.18)* | 16,320,866 | 1,284,813 |
| Other provisions | 2,596,092 | 162,269 |
| Equalization provision | 4,033,537 | 2,264,959 |
| Reserve for unexpired risks | 819,505 | 3,744,093 |
| Provisions for employee termination benefits and unused vacations | 2,141,050 | 1,583,014 |
| Provision for subrogation receivables | 1,827,442 | 929,978 |
| Difference in depreciation methods on tangible and intangible assets between tax regulations and the Reporting Standards | (244,610) | (186,097) |
| Discount of receivables and payables | (198,461) | (105,655) |
| Valuation differences in financial assets | (691,628) | 1,609,012 |
| Subrogation receivables from third parties | (1,999,672) | (1,364,347) |
| Deferred tax assets, net | 24,604,121 | 9,922,039 |

As at 31 December 2012, the Company has deductible tax losses amounting TL 81,604,330 (31 December 2011: TL 6,424,063). The Company has recognised deferred tax assets on these tax losses because it is probable that future taxable profit will be available in accordance with the Company's projections.

| Expiration date | 31 December 2012 | 31 December 2011 |
|---|---|---|
| 31 December 2016 | 6,424,063 | 6,424,063 |
| 31 December 2017 | 75,180,267 | -- |
| Total | 81,604,330 | 6,424,063 |

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Opening balance at 1 January | 9,922,039 | 2,964,208 |
| Recognised in profit or loss *(Note 35)* | 17,011,542 | 6,368,048 |
| Recognised in equity *(Note 15)* | (2,329,460) | 589,783 |
| Deferred tax asset | 24,604,121 | 9,922,039 |

## 22 Retirement benefit obligations

The participants or beneficiaries of pension funds are required to be transferred Social Security Institution according to "Amendments to the Social Security and General Health Insurance Act Including Certain Laws and Decrees" numbered 5754 which was published in the Official Gazette dated 8 May 2008 and numbered 26870. Transfer will be completed within a period of 3 years and prescribes the extension period of the transfer as maximum of two years upon the order of the Cabinet. The related three-year transfer period has been prolonged for two years by the Cabinet decision, which was published on the Official Gazette dated 9 April 2011. Accordingly, the three-year period expired on 8 May 2011 was extended to the 8 May 2013. 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. Technical deficit rate of 9.8% shall be used in the actuarial calculation of the value in cash, and uncovered other rights and compensations of participants or beneficiaries of pension funds should be covered by the entities that transfer the funds.

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 the Company 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 the Company.

(CURRENCY: TURKISH LIRA (TL))

## 23 Other liabilities and provisions

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Provision for employee termination benefits | 9,856,211 | 7,193,068 |
| Provision for unused vacation pay liability | 849,038 | 722,001 |
| Total provision for other risks | 10,705,249 | 7,915,069 |

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Sliding scale commission accrual | 6,451,900 | 4,698,961 |
| Provision for agency rewards | 2,650,000 | 4,685,000 |
| Provision for personnel bonus | 4,125,000 | 3,750,000 |
| Provision for guarantee funds | 4,110,519 | 1,613,569 |
| Personnel salary increase accrual | 4,050,000 | -- |
| Deferred income and expense accruals | 21,387,419 | 14,747,530 |

Movements of provision for employee termination benefits during the period are presented below:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Provision at the beginning of the period | 7,193,068 | 5,481,127 |
| Interest cost *(Note 47)* | 552,454 | 602,924 |
| Service cost *(Note 47)* | 814,704 | 540,862 |
| Payments made during the period *(Note 47)* | (961,306) | (713,572) |
| Actuarial difference *(Note 47)* | 2,257,291 | 1,281,727 |
| Provision at the end of the period | 9,856,211 | 7,193,068 |

## 24 Net insurance premium

Net insurance premium revenue is presented in detailed in the accompanying unconsolidated statement of income.

## 25 Fee revenue

None.

## 26 Investment income

Investment income is presented in "*Note 4.2* – Financial Risk Management".

## 27 Net income accrual on financial assets

Net realized gains on financial assets are presented in "*Note 4.2* – Financial Risk Management".

## 28 Assets held at fair value through profit or loss

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

(CURRENCY: TURKISH LIRA (TL))

## 29 Insurance rights and claims

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Claims paid, net off reinsurers' share | 1,243,326,562 | 906,292,416 |
| Changes in reserve for unearned premiums, net off reinsurers' share | 68,219,435 | 210,410,110 |
| Changes in provision for outstanding claims, net off reinsurers' share | 123,689,763 | 61,103,905 |
| Change in equalization provisions | 11,638,204 | 3,718,596 |
| Changes in reserve for unexpired risks, net off reinsurers' share | (14,622,941) | 12,855,160 |
| Total | 1,432,251,023 | 1,194,380,187 |

## 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

The operating expenses are disclosed as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Commission expenses *(Note 17)* | 346,341,802 | 277,516,521 |
| *Commissions to intermediaries accrued during the period (Note 17)* | *352,774,055* | *319,140,020* |
| *Change in deferred commission expenses (Note 17)* | *(6,432,253)* | *(41,623,499)* |
| Employee benefit expenses *(Note 33)* | 87,116,152 | 74,005,861 |
| Commission income from reinsurers *(Note 10)* | (60,512,806) | (54,175,935) |
| *Commission income from reinsurers accrued during the period (Note 10)* | *(61,914,124)* | *(65,450,568)* |
| *Change in deferred commission income (Note 10)* | *1,401,318* | *11,274,633* |
| Administration expenses | 56,925,891 | 51,997,786 |
| Advertising and marketing expenses | 15,280,987 | 15,926,567 |
| Outsourced benefits and services | 916,427 | 1,550,267 |
| Other expenses | 42,197,686 | 28,117,001 |
| Total | 488,266,139 | 394,938,068 |

## 33 Employee benefits expenses

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Wages and salaries | 62,902,862 | 52,893,048 |
| Employer's share | 11,591,110 | 9,805,616 |
| Other | 12,622,180 | 11,307,197 |
| Total | 87,116,152 | 74,005,861 |

## 34 Financial costs

Finance costs of the period are presented in "*Note 4.2* – Financial Risk Management" above. There are no finance costs classified in production costs or capitalized on tangible assets. All financial costs are directly recognised as expense in the unconsolidated statement of income.

(CURRENCY: TURKISH LIRA (TL))

## 35 Income tax

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| *Current tax expense* | | |
| Corporate tax provision | -- | -- |
| *Deferred taxes* | | |
| Origination and reversal of temporary differences | 17,011,542 | 6,368,048 |
| Total income tax expense recognised in profit or loss | 17,011,542 | 6,368,048 |

A reconciliation of tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the Company's effective income tax rate is as follows:

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| Profit before tax | (80,992,674) | Tax rate (%) | (2,299,290) | Tax rate (%) |
| Taxes on income per statutory tax rate | (16,198,535) | 20.00 | (459,858) | 20.00 |
| Tax exempt income | (3,510,084) | 4.33 | (5,983,804) | 260.25 |
| Non deductible expenses | 2,697,077 | (3.33) | 75,614 | (3.29) |
| Total tax income recognized in profit or loss | (17,011,542) | 21.00 | (6,368,048) | 276.96 |

## 36 Net foreign exchange gains

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

## 37 Earnings per share

Earnings per share are calculated by dividing net profit of the period to the weighted average number of shares.

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Net profit/(loss) for the period | (63,981,132) | 4,068,758 |
| Weighted average number of shares | 50,000,000,000 | 50,000,000,000 |
| Earnings/(loss) per share (TL) | (0.00128) | 0.00008 |

## 38 Dividends per share

Profit distribution is not performed in the current period since the Company recorded TL 1,347,085 consolidated loss in 2011.

As per the resolution of the General Assembly held on 29 March 2011, it is decided to distribute the net profit of the year amounting to TL 37,546,317 via cash amounting to TL 10,000,000 and TL 774,464 to the Company employees, and the remaining profit is distributed to the extraordinary reserves after providing first and second type of legal reserves. Accordingly, dividends per share of the 2010 year profit distribution amounted to TL 0.0002.

(CURRENCY: TURKISH LIRA (TL))

## 39 Cash generated from operations

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

## 40 Convertible bonds

None.

## 41 Redeemable preference shares

None.

## 42 Risks

In the normal course of its operations, the Company 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 Company are provided under provision for outstanding claims in the accompanying unconsolidated financial statements.

As at 31 December 2012, total amount of the claims that the Company face is TL 583,083,000 in gross (31 December 2011: TL 380,599,000). The Company provided provision for outstanding claims in the unconsolidated financial statements by considering collateral amounts.

As at 31 December 2012, ongoing law suits prosecuted by the Company against the third parties amounting TL 149,734,000 (31 December 2011: TL 127,512,000).

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 details of the guarantees that are given by the Company for the operations in non-life branches are presented in *Note 17*.

The future aggregate minimum lease payments under operating leases for properties rented for use of head office and regional offices and motor vehicles rented for sales and marketing departments are as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Within one year | 6,159,725 | 5,894,579 |
| Between one to five years | 10,399,139 | 15,536,216 |
| Total of minimum lease payments | 16,558,864 | 21,430,795 |

## 44 Business combinations

None.

(CURRENCY: TURKISH LIRA (TL))

## 45 Related party transactions

The ultimate controlling party of the Company is İş Bankası Group and the groups having direct control over İş Bankası Group and the affiliates and associates of İş Bankası Group are defined as related parties of the Company.

The related party balances as of 31 December 2012 and 31 December 2011 are as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| İş Bankası – cash at banks | 465,060,997 | 487,105,204 |
| Türkiye Sınai ve Kalkınma Bankası – cash at banks | 17,590 | 9,937 |
| Banks | 465,078,587 | 487,115,141 |
| Bonds issued by İş Bankası *(Note 11)* | 49,009,793 | 50,886,817 |
| Investment funds founded by İş Bankası *(Note 11)* | 13,831,486 | 35,396,270 |
| Investment funds founded by İş Portföy Yönetimi A.Ş. *(Note 11)* | 9,903,600 | 8,909,100 |
| Investment funds founded by İşbank GmbH *(Note 11)* | 10,871,446 | 7,251,005 |
| Financial assets | 83,616,325 | 102,443,192 |
| İş Bankası – receivables stem from premiums written via the Bank | 50,912,248 | 43,203,869 |
| Receivables stems from premiums written via Şişecam Sigorta Aracılık Hiz. A.Ş. | 5,022,620 | 4,582,677 |
| Milli Reasürans T.A.Ş. - receivables from reinsurance operations | 1,674,053 | -- |
| Anadolu Hayat Emeklilik A.Ş. – premium receivables | 768 | 1,473 |
| Receivables from main operations | 57,609,688 | 47,788,019 |
| Milli Reasürans T.A.Ş.- payables from reinsurance operations | -- | 19,543,199 |
| İş Bankası – commission payables | 5,713,391 | 5,411,657 |
| Şişecam Sigorta Aracılık Hizmetleri A.Ş. - commission payables | 316,169 | 347,710 |
| Payables from main operations | 6,029,760 | 25,302,566 |
| Payables to shareholders | 15,494 | 15,494 |
| Payables to related parties | 15,494 | 15,494 |

No guarantees have been taken against receivables from related parties.

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

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

(CURRENCY: TURKISH LIRA (TL))

The transactions with related parties during the year ended 31 December 2012 and 2011 are as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| İş Bankası - premiums written via the Bank | 207,616,974 | 170,228,945 |
| Premiums written via Şişecam Sigorta Aracılık Hizmetleri A.Ş. | 35,458,879 | 31,293,362 |
| Anadolu Hayat Emeklilik A.Ş. - premiums written | 1,367,432 | 1,206,173 |
| Milli Reasürans T.A.Ş. | 412,000 | 324,416 |
| Premiums written | 244,855,285 | 203,052,896 |
| | | |
| Milli Reasürans T.A.Ş. | (66,506,251) | (107,095,353) |
| Premiums written, ceded | (66,506,251) | (107,095,353) |
| | | |
| İş Bankası - interest income from deposits | 36,272,739 | 20,438,072 |
| İş Bankası - income from investment funds | 9,874,011 | 1,531,752 |
| İş Bankası - income from bonds | 4,842,588 | 486,292 |
| Investment income | 50,989,338 | 22,456,116 |
| | | |
| İş Bankası - commission expense | (20,971,481) | (18,177,384) |
| Şişecam Sigorta Aracılık Hizmetleri A.Ş. - commission expense | (6,914,223) | (6,334,995) |
| Milli Reasürans T.A.Ş. - commission income | 16,860,842 | 20,760,512 |
| Operating expenses, net | (11,024,862) | (3,751,867) |

## 46 Events after the reporting date

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

## 47 Others

### 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.

For the year ended period 31 December 2012 and 2011, details of discount and provision expenses are as follows:

| Provision expenses | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Other provision income/(expense) | 721,494 | 6,306,117 |
| Provision expense for permission *(Note 23)* | (127,037) | (93,488) |
| Provision expense for employee termination benefits *(Note 23)* | (2,663,143) | (1,711,941) |
| Provision expense for doubtful receivables | (6,266,542) | (12,037,312) |
| Total of provisions | (8,335,228) | (7,536,624) |

| Rediscount expenses | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Rediscount income | 12,703,425 | 13,652,976 |
| Rediscount expense | (13,279,959) | (10,369,504) |
| Total of rediscounts | (576,534) | 3,283,472 |

ANADOLU ANONİM TÜRK SİGORTA ŞİRKETİ

# 31 DECEMBER 2012
# CONSOLIDATED FINANCIAL STATEMENTS
# TOGETHER WITH INDEPENDENT AUDITORS' REPORT THEREON

# INFORMATION ON CONSOLIDATED SUBSIDIARIES

## ANADOLU HAYAT EMEKLİLİK A.Ş.

Offering service in private pension and life insurance segments, Anadolu Hayat Emeklilik was founded in 1990 as "Turkey's first life insurance company". The first and only publicly-traded pension company in Turkey, Anadolu Hayat Emeklilik is the largest company in the sector in terms of total funds attained in life insurance and private pension branches, while preserving its top spot with the number of participants achieved in the Private Pension System.

A subsidiary of İşbank, Anadolu Hayat Emeklilik's shares are quoted on the İstanbul Stock Exchange (ISE) National Market under the symbol (ANHYT)

Headquartered in İstanbul, Anadolu Hayat Emeklilik brings its products to its customers via regional offices in İstanbul (2), Ankara, Adana, Antalya, Bursa and İzmir, a branch in the Turkish Republic of Northern Cyprus, direct sales force, and nearly 250 agencies.

Anadolu Hayat Emeklilik possesses the most extensive bancassurance network in Turkey. The Company uses the branches of İşbank, Anadolubank, HSBC, TSKB, BankPozitif and Albaraka Türk Participation Bank as fundamental element of its service delivery.

Controlling a 13.5% share of the market with a premium production of TL 367 million in the life insurance branch, Anadolu Hayat Emeklilik retained its leadership by a large margin with total mathematical reserves in excess of TL 2,206 million.

According to the Pension Monitoring Center (PMC) data dated 4 January 2013, Anadolu Hayat Emeklilik achieved 9.1% increase in the number of participants and 41.83% expansion in total funds in the twelve months to year-end 2012. Having reached TL 4,295 million in total funds and 630,253 people in the number of participants, Anadolu Hayat Emeklilik is the sector's leader with respective market shares of 21% and 20% in total funds and number of participants.

Total unconsolidated assets of Anadolu Hayat Emeklilik were up 28% year-to-year and reached TL 7,222 million at year-end 2012.

Posting TL 79.6 million in net profit, the Company successfully completed yet another year in terms of sustainable profitability

# 31 DECEMBER 2012 CONSOLIDATED FINANCIAL STATEMENTS TOGETHER WITH INDEPENDENT AUDITORS' REPORT THEREON

KPMG

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

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

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

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Anadolu Anonim Türk Sigorta Şirketi

*Introduction*

We have audited the accompanying consolidated balance sheet of Anadolu Anonim Türk Sigorta Şirketi ("the Company") as at 31 December 2012 and the related consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

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

*Independent Auditors' Responsibility*

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

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

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

*Basis for Qualified Opinion*

As explained in Note 17, the accompanying consolidated financial statements included a general provision amounting to TL 7,702,761 provided by the Company management considering the circumstances which may arise from any changes in economy or market conditions recognized as expense in the prior periods. The total amount had been expensed in previous years' financial statements.

*Qualified Opinion*

In our opinion, except for the effect on the consolidated financial statements of the matter described in the basis for qualified opinion paragraph above, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of Anadolu Anonim Türk Sigorta Şirketi 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.

Istanbul, 28 February 2013

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik AŞ

Murat Alsan, Certified Public Accountant
*Partner*

Additional paragraph for convenience translation to English:

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

# 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, 28 February 2013

Musa ÜLKEN
Member of Board of Directors,
Chief Executive Officer

Fatih GÖREN
Executive Vice
President of Finance

Murat TETİK
Accounting and
Reporting Manager

Ethem ELİAÇIK
Statutory Auditor

Kubilay AYKOL
Statutory Auditor

Canan YILMAZ
Statutory Auditor

Taylan MATKAP
Actuary

ANADOLU ANONİM TÜRK SİGORTA ŞİRKETİ

# CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2012

(CURRENCY: TURKISH LIRA (TL))

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

| ASSETS | | | |
|---|---|---|---|
| I- Current Assets | Note | Audited Current Period 31 December 2012 | Audited Current Period 31 December 2011 |
| A- Cash and Cash Equivalents | 14 | 968,521,375 | 911,631,717 |
| 1- Cash | 14 | 59,000 | 61,089 |
| 2- Cheques Received | | -- | -- |
| 3- Banks | 14 | 810,515,425 | 691,318,942 |
| 4- Cheques Given and Payment Orders | 14 | (1,104,472) | (1,450,675) |
| 5- Bank Guaranteed Credit Card Receivables with Maturities 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 | 355,422,292 | 335,903,255 |
| 1- Available-for-Sale Financial Assets | 11 | 224,035,917 | 164,631,610 |
| 2- Held to Maturity Investments | 11 | 89,590,740 | 85,608,329 |
| 3- Financial Assets Held for Trading | 11 | 47,593,247 | 91,460,928 |
| 4- Loans and Receivables | | -- | -- |
| 5- Provision for Loans and Receivables | | -- | -- |
| 6- Financial Investments with Risks on Saving Life 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 | 646,879,957 | 553,528,183 |
| 1- Receivables from Insurance Operations | 12 | 603,166,176 | 511,613,696 |
| 2- Provision for Receivables from Insurance Operations | 2.21,12 | (9,137,211) | (4,649,888) |
| 3- Receivables from Reinsurance Operations | 12 | 48,944,928 | 43,504,762 |
| 4- Provision for Receivables from Reinsurance Operations | | -- | -- |
| 5- Cash Deposited to Insurance and Reinsurance Companies | 12 | 3,906,064 | 3,059,613 |
| 6- Loans to the Policyholders | | -- | -- |
| 7- Provision for Loans to the Policyholders | | -- | -- |
| 8- Receivables from Individual Pension Operations | | -- | -- |
| 9- Doubtful Receivables from Main Operations | 12 | 87,996,612 | 82,451,564 |
| 10- Provision for Doubtful Receivables from Main Operations | 12 | (87,996,612) | (82,451,564) |
| 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 | 2,195,501 | 1,869,978 |
| 1- Finance Lease Receivables | | -- | -- |
| 2- Unearned Finance Lease Interest Income | | -- | -- |
| 3- Deposits and Guarantees Given | | 41,325 | 16,857 |
| 4- Other Miscellaneous Receivables | | 2,154,176 | 1,853,121 |
| 5- Rediscount on Other Miscellaneous Receivables | | -- | -- |
| 6- Other Doubtful Receivables | | -- | -- |
| 7- Provision for Other Doubtful Receivables | | -- | -- |
| F- Prepaid Expenses and Income Accruals | | 165,158,324 | 167,176,361 |
| 1- Prepaid Expenses | 17 | 162,793,013 | 161,112,385 |
| 2- Accrued Interest and Rent Income | | -- | -- |
| 3- Income Accruals | 10,12 | 2,365,311 | -- |
| 4- Other Prepaid Expenses | | -- | 6,063,976 |
| G- Other Current Assets | | 11,993,417 | 9,474,843 |
| 1- Stocks to be Used in the Following Months | | 723,902 | 506,047 |
| 2- Prepaid Taxes and Funds | 19 | 10,640,156 | 7,938,909 |
| 3- Deferred Tax Assets | | -- | -- |
| 4- Job Advances | 12 | 74,516 | 36,198 |
| 5- Advances Given to Personnel | 12 | 35,685 | 10,857 |
| 6- Inventory Count Differences | | -- | -- |
| 7- Other Miscellaneous Current Assets | 12 | 519,158 | 982,832 |
| 8- Provision for Other Current Assets | | -- | -- |
| I- Total Current Assets | | 2,151,616,559 | 1,979,674,567 |

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

ANADOLU ANONİM TÜRK SİGORTA ŞİRKETİ
# CONSOLIDATED BALANCE SHEET
# AS AT 31 DECEMBER 2012
(CURRENCY: TURKISH LIRA (TL))

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

| ASSETS | | | |
|---|---|---|---|
| II- Non-Current Assets | Note | Audited Current Period 31 December 2012 | Audited Prior Period 31 December 2011 |
| A- Receivables from Main Operations | | -- | -- |
| 1- Receivables from Insurance Operations | | -- | -- |
| 2- Provision for Receivables from Insurance Operations | | -- | -- |
| 3- Receivables from Reinsurance Operations | | -- | -- |
| 4- Provision for Receivables from Reinsurance Operations | | -- | -- |
| 5- Cash Deposited for Insurance and Reinsurance Companies | | -- | -- |
| 6- Loans to the Policyholders | | -- | -- |
| 7- Provision for Loans to the Policyholders | | -- | -- |
| 8- Receivables from Individual Pension Business | | -- | -- |
| 9- Doubtful Receivables from Main Operations | | -- | -- |
| 10- Provision for Doubtful Receivables from Main Operations | | -- | -- |
| 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 | 105,897,121 | 86,667,515 |
| 1- Investments in Equity Shares | | -- | -- |
| 2- Investments in Associates | 9 | 105,897,121 | 86,667,515 |
| 3- Capital Commitments to Associates | | -- | -- |
| 4- Investments in Subsidiaries | | -- | -- |
| 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 | 14,926,640 | 18,326,963 |
| 1- Investment Properties | 6,7 | 6,982,776 | 6,982,776 |
| 2- Impairment for Investment Properties | | -- | -- |
| 3- Owner Occupied Property | 6 | 6,387,729 | 6,352,187 |
| 4- Machinery and Equipments | 6 | 26,268,960 | 25,657,096 |
| 5- Furniture and Fixtures | 6 | 9,031,553 | 8,977,764 |
| 6- Motor Vehicles | 6 | 1,299,851 | 1,340,671 |
| 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 | (43,249,260) | (39,106,165) |
| 10- Advances Paid for Tangible Assets (Including Construction in Progress) | | -- | -- |
| F- Intangible Assets | 8 | 54,485,705 | 36,130,201 |
| 1- Rights | | -- | -- |
| 2- Goodwill | 8 | 16,250,000 | 16,250,000 |
| 3- Pre-operating Expenses | | -- | -- |
| 4- Research and Development Costs | | -- | -- |
| 5- Other Intangible Assets | 8 | 21,643,962 | 16,560,910 |
| 6- Accumulated Amortization | 8 | (15,125,600) | (11,017,137) |
| 7- Advances Paid for Intangible Assets | 8 | 31,717,343 | 14,336,428 |
| G- Prepaid Expenses and Income Accruals | 17 | 564,809 | 561,891 |
| 1- Prepaid Expenses | 17 | 564,809 | 561,891 |
| 2- Income Accruals | | -- | -- |
| 3- Other Prepaid Expenses and Income Accruals | | -- | -- |
| H- Other Non-Current Assets | 21 | 24,604,121 | 9,922,039 |
| 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 | 24,604,121 | 9,922,039 |
| 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 | | 200,478,396 | 151,608,609 |
| TOTAL ASSETS | | 2,352,094,955 | 2,131,283,176 |

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

ANADOLU ANONİM TÜRK SİGORTA ŞİRKETİ

# CONSOLIDATED BALANCE SHEET
# AS AT 31 DECEMBER 2012

(CURRENCY: TURKISH LIRA (TL))

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

LIABILITIES

| III- Short-Term Liabilities | Note | Audited Current Period 31 December 2012 | Audited Prior Period 31 December 2011 |
|---|---|---|---|
| A- Financial Liabilities | | -- | -- |
| 1- Borrowings from Financial Institutions | | -- | -- |
| 2- Finance Lease Liabilities | | -- | -- |
| 3- Deferred Leasing Costs | | -- | -- |
| 4- Current Portion of Long Term Debts | | -- | -- |
| 5- Principal Instalments 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 | 198,973,610 | 172,569,477 |
| 1- Payables Arising from Insurance Operations | 19 | 131,649,849 | 134,993,564 |
| 2- Payables Arising from Reinsurance Operations | | -- | -- |
| 3- Cash Deposited by Insurance and Reinsurance Companies | 19 | 3,161,917 | 1,814,418 |
| 4- Payables Arising from Individual Pension Business | | -- | -- |
| 5- Payables Arising from Other Main Operations | 19 | 64,161,844 | 35,761,495 |
| 6- Discount on Payables from Other Main Operations | | -- | -- |
| C- Due to Related Parties | 19 | 15,494 | 15,494 |
| 1- Due to Shareholders | 19 | 15,494 | 15,494 |
| 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 | 36,023,378 | 26,637,751 |
| 1- Deposits and Guarantees Received | | 3,167,035 | 2,517,131 |
| 2- Medical Treatment Payables to Social Security Institution | | 8,092,174 | 6,975,877 |
| 3- Other Miscellaneous Payables | | 24,843,716 | 17,271,570 |
| 4- Discount on Other Miscellaneous Payables | | (79,547) | (126,827) |
| E- Insurance Technical Provisions | 17 | 1,358,582,758 | 1,181,296,501 |
| 1- Reserve for Unearned Premiums - Net | 17 | 865,134,772 | 796,915,337 |
| 2- Reserve for Unexpired Risks - Net | 2.26,17 | 4,097,523 | 18,720,464 |
| 3- Mathematical Provisions - Net | | -- | -- |
| 4- Provision for Outstanding Claims - Net | 17 | 489,350,463 | 365,660,700 |
| 5- Provision for Bonus and Discounts – Net | | -- | -- |
| 6- Other Technical Provisions – Net | | -- | -- |
| F- Provisions for Taxes and Other Similar Obligations | 19 | 16,325,270 | 16,770,948 |
| 1- Taxes and Funds Payable | | 14,939,117 | 15,278,724 |
| 2- Social Security Premiums Payable | | 1,386,153 | 1,492,224 |
| 3- Overdue, Deferred or By Instalment Taxes and Other Liabilities | | -- | -- |
| 4- Other Taxes and Similar Payables | 1 | -- | -- |
| 5- Corporate Tax Payable | | -- | -- |
| 6- Prepaid Taxes and Other Liabilities Regarding Current Period Income | | -- | -- |
| 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 | | 56,367,771 | 48,326,564 |
| 1- Deferred Income | 19 | 34,980,352 | 33,579,034 |
| 2- Expense Accruals | 23 | 21,387,419 | -- |
| 3- Other Deferred Income and Expense Accruals | | -- | 14,747,530 |
| I- Other Short-Term Liabilities | 23 | 849,038 | 722,001 |
| 1- Deferred Tax Liabilities | | -- | -- |
| 2- Inventory Count Differences | | -- | -- |
| 3- Other Various Short-Term Liabilities | 23 | 849,038 | 722,001 |
| III – Total Short-Term Liabilities | | 1,667,137,319 | 1,446,338,736 |

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

# CONSOLIDATED BALANCE SHEET
# AS AT 31 DECEMBER 2012

(CURRENCY: TURKISH LIRA (TL))

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

| LIABILITIES | | | |
|---|---|---|---|
| IV- Long-Term Liabilities | Note | Audited Current Period 31 December 2012 | Audited Prior Period 31 December 2011 |
| A- Financial Liabilities | | -- | -- |
| 1- Borrowings from Financial Institutions | | -- | -- |
| 2- Finance Lease Liabilities | | -- | -- |
| 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 Main Operations | | -- | -- |
| 1- Payables Arising from Insurance Operations | | -- | -- |
| 2- Payables Arising from Reinsurance Operations | | -- | -- |
| 3- Cash Deposited by Insurance and Reinsurance Companies | | -- | -- |
| 4- Payables Arising from Individual Pension Business | | -- | -- |
| 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- Medical Treatment Payables to Social Security Institution | | 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 | 39,860,010 | 33,635,411 |
| 1- Reserve for Unearned Premiums – Net | | -- | -- |
| 2- Reserve for Unexpired Risks - Net | | -- | -- |
| 3- Mathematical Provisions - Net | | -- | -- |
| 4- Provision for Outstanding Claims - Net | | -- | -- |
| 5- Provision for Bonus and Discounts – Net | | -- | -- |
| 6- Other Technical Provisions – Net | 17 | 39,860,010 | 33,635,411 |
| F-Other Liabilities and Relevant Accruals | | -- | -- |
| 1- Other Liabilities | | -- | -- |
| 2- Overdue, Deferred or By Instalment Taxes and Other Liabilities | | -- | -- |
| 3- Other Liabilities and Expense Accruals | | -- | -- |
| G- Provisions for Other Risks | 23 | 9,856,211 | 7,193,068 |
| 1- Provision for Employee Termination Benefits | 23 | 9,856,211 | 7,193,068 |
| 2- Provision for Pension Fund Deficits | | -- | -- |
| H-Deferred Income and Expense Accruals | | -- | -- |
| 1- Deferred Income | | -- | -- |
| 2- Expense Accruals | | -- | -- |
| 3- Other Deferred Income and Expense Accruals | | -- | -- |
| I- Other Long-Term Liabilities | | -- | -- |
| 1- Deferred Tax Liabilities | | -- | -- |
| 2- Other Long-Term Liabilities | | -- | -- |
| IV- Total Long-Term Liabilities | | 74,699,591 | 57,552,783 |

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

# CONSOLIDATED BALANCE SHEET
# AS AT 31 DECEMBER 2012

(CURRENCY: TURKISH LIRA (TL))

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

| EQUITY | | | |
|---|---|---|---|
| V- Equity | Note | Audited Current Period 31 December 2012 | Audited Prior Period 31 December 2011 |
| A- Paid in Capital | | 500,000,000 | 500,000,000 |
| 1- (Nominal) Capital | 2.13,15 | 500,000,000 | 500,000,000 |
| 2- Unpaid Capital | | -- | -- |
| 3- Positive Capital Restatement Differences | | -- | -- |
| 4- Negative Capital Restatement Differences | | -- | -- |
| 5- Register in Progress Capital | | -- | -- |
| B- Capital Reserves | 15 | 8,161,541 | 8,081,516 |
| 1- Share Premiums | | -- | -- |
| 2- Cancellation Profits of Equity Shares | | -- | -- |
| 3- Profit on Asset Sales That Will Be Transferred to Capital | | -- | -- |
| 4- Currency Translation Adjustments | | -- | -- |
| 5- Other Capital Reserves | 15 | 8,161,541 | 8,081,516 |
| C- Profit Reserves | | 153,039,056 | 105,790,299 |
| 1- Legal Reserves | 15 | 43,918,190 | 42,524,675 |
| 2- Statutory Reserves | 15 | 9,737,625 | 8,433,201 |
| 3- Extraordinary Reserves | 15 | 20,564,428 | 14,956,950 |
| 4- Special Funds | | -- | -- |
| 5- Revaluation of Financial Assets | 15 | 34,628,767 | (4,314,573) |
| 6- Other Profit Reserves | 15 | 44,190,046 | 44,190,046 |
| D- Retained Earnings | | 4,848,165 | 14,866,927 |
| 1- Retained Earnings | | 4,848,165 | 14,866,927 |
| E- Accumulated Losses | | -- | -- |
| 1- Accumulated Losses | | -- | -- |
| F-Net Profit/(Loss) for the Period | | (55,790,717) | (1,347,085) |
| 1- Net Profit for the Period | | -- | -- |
| 2- Net Loss for the Period | | (55,790,717) | (1,427,110) |
| 3- Profit not Available for Distribution | | -- | 80,025 |
| V- Total Equity | | 610,258,045 | 627,391,657 |
| TOTAL EQUITY AND LIABILITIES | | 2,352,094,955 | 2,131,283,176 |

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

# CONSOLIDATED STATEMENT OF INCOME
# FOR THE YEAR ENDED 31 DECEMBER 2012

(CURRENCY: TURKISH LIRA (TL))

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

| I-TECHNICAL SECTION | Note | Audited Current Period 31 December 2012 | Audited Prior Period 31 December 2011 |
|---|---|---|---|
| A- Non-Life Technical Income | | 1,794,420,873 | 1,355,984,632 |
| 1- Earned Premiums (Net of Reinsurer Share) | | 1,682,992,104 | 1,261,383,874 |
| 1.1- Written Premiums (Net of Reinsurer Share) | 17 | 1,736,588,598 | 1,484,649,144 |
| 1.1.1- Written Premiums, gross | 17 | 2,234,633,499 | 1,926,090,486 |
| 1.1.2- Written Premiums, ceded | 10,17 | (454,182,023) | (417,467,198) |
| 1.1.3- Premiums Transferred to Social Security Institutions | | (43,862,878) | (23,974,144) |
| 1.2- Change in Reserve for Unearned Premiums (Net of Reinsurer Shares and Less the Amounts Carried Forward) | 17,29 | (68,219,435) | (210,410,110) |
| 1.2.1- Reserve for Unearned Premiums, gross | 17 | (90,105,007) | (290,046,518) |
| 1.2.2- Reserve for Unearned Premiums, ceded | 17 | 15,764,790 | 65,557,175 |
| 1.2.3 – Reserve for Unearned Premiums, Social Security Institution 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) | 29 | 14,622,941 | (12,855,160) |
| 1.3.1- Reserve for Unexpired Risks, gross | | 22,470,770 | (17,183,652) |
| 1.3.2- Reserve for Unexpired Risks, ceded | | (7,847,829) | 4,328,492 |
| 2- Investment Income - Transferred from Non-Technical Section | | 119,051,082 | 79,355,436 |
| 3- Other Technical Income (Net of Reinsurer Share) | | 2,672,397 | 1,321,606 |
| 3.1- Other Technical Income, gross | | 2,672,397 | 1,321,606 |
| 3.2- Other Technical Income, ceded | | - | - |
| 4- Accrued Salvage and Subrogation Income | | (10,294,710) | 13,923,716 |
| B - Non-Life Technical Expense | | (1,866,920,668) | (1,366,052,985) |
| 1- Incurred Losses (Net of Reinsurer Share) | 17 | (1,367,016,325) | (967,396,321) |
| 1.1- Claims Paid (Net of Reinsurer Share) | 17,29 | (1,243,326,562) | (906,292,416) |
| 1.1.1- Claims Paid, gross | 17 | (1,371,854,564) | (1,018,263,072) |
| 1.1.2- Claims Paid, ceded | 10,17 | 128,528,002 | 111,970,656 |
| 1.2- Change in Provisions for Outstanding Claims (Net of Reinsurer Share and Less the Amounts Carried Forward) | 17,29 | (123,689,763) | (61,103,905) |
| 1.2.1- Change in Provisions for Outstanding Claims, gross | 17 | (154,558,870) | (43,957,568) |
| 1.2.2- Change in Provisions for Outstanding Claims, ceded | 17 | 30,869,107 | (17,146,337) |
| 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 | (11,638,204) | (3,718,596) |
| 4- Operating Expenses | 32 | (484,522,695) | (393,538,852) |
| 5- Change in Mathematical Provisions (Net of Reinsurer Share and Less the Amounts Carried Forward) | | - | - |
| 5.1- Change in Mathematical Provisions, gross | | - | - |
| 5.2 - Change in Mathematical Provisions, ceded | | - | - |
| 6- Change in Other Technical Provisions (Net of Reinsurer and Less the Amounts Carried Forward) | 2.25 | (3,743,444) | (1,399,216) |
| 6.1- Change in Other Technical Provisions, gross | 2.25 | (3,743,444) | (1,399,216) |
| 6.2- Change in Other Technical Provisions, ceded | | - | - |
| C- Net Technical Income-Non-Life (A – B) | | (72,499,795) | (10,068,353) |
| D- Life Technical Income | | -- | -- |
| 1- Earned Premiums (Net of Reinsurer Share) | | -- | -- |
| 1.1- Written Premiums (Net of Reinsurer Share) | | -- | -- |
| 1.1.1- Written Premiums, gross | | -- | -- |
| 1.1.2- Written Premiums, ceded | | -- | -- |
| 1.2- Change in Reserve for Unearned Premiums (Net of Reinsurer Share and Less the Amounts Carried Forward) | | -- | -- |
| 1.2.1- Reserve for Unearned Premiums, gross | | -- | -- |
| 1.2.2- Reserve for Unearned Premiums, ceded | | -- | -- |
| 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 | | -- | -- |
| 3- Unrealized Gains on Investments | | -- | -- |
| 4- Other Technical Income (Net of Reinsurer Share) | | -- | -- |
| 4.1- Other Technical Income. gross | | -- | -- |
| 4.2- Other Technical Income. ceded | | -- | -- |
| 5- Accrued Salvage Income | | -- | -- |

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

ANADOLU ANONİM TÜRK SİGORTA ŞİRKETİ

# CONSOLIDATED STATEMENT OF INCOME
# FOR THE YEAR ENDED 31 DECEMBER 2012

(CURRENCY: TURKISH LIRA (TL))

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

| I-TECHNICAL SECTION | Note | Audited CurrentPeriod 31December2012 | Audited PriorPeriod 31December2011 |
|---|---|---|---|
| E- Life Technical Expense | | -- | -- |
| 1- Incurred Losses (Net of Reinsurer Share) | | -- | -- |
| 1.1- Claims Paid (Net of Reinsurer Share) | | -- | -- |
| 1.1.1- Claims Paid, gross | | -- | -- |
| 1.1.2- Claims Paid, ceded | | -- | -- |
| 1.2- Change in Provisions for Outstanding Claims (Net of Reinsurer Share and Less the Amounts Carried Forward) | | -- | -- |
| 1.2.1- Change in Provisions for Outstanding Claims, gross | | -- | -- |
| 1.2.2- Change in Provisions for Outstanding Claims, ceded | | -- | -- |
| 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 Mathematical Provisions (Net of Reinsurer Share and Less the Amounts Carried Forward) | | -- | -- |
| 3.1- Change in Mathematical Provisions, gross | | -- | -- |
| 3.1.1- Change in Actuarial Mathematical Provisions, gross | | -- | -- |
| 3.1.2- Change in Profit Share Provisions (Provision for Financial Investments with Risks on Saving Life Policyholders), gross | | -- | -- |
| 3.2- Change in Mathematical Provisions, ceded | | -- | -- |
| 3.2.1- Change in Actuarial Mathematical Provisions, ceded | | -- | -- |
| 3.2.2- Change in Profit Share Provisions (Provision for Financial Investments with Risks on Saving Life Policyholders). ceded | | -- | -- |
| 4- Change in Provisions for Policies Investment Risks of Which Belongs to Life Insurance Policyholders (Net of Reinsurer Share and Less the Amounts Carried Forward) | | -- | -- |
| 5- Change in Other Technical Reserves (Net of Reinsurer Share and Less the Amounts Carried Forward) | | -- | -- |
| 6- Operating Expenses | | -- | -- |
| 7- Investment Expenses | | -- | -- |
| 8- Unrealized Losses on Investments | | -- | -- |
| 9- Investment Income Transferred to the Non-Life Technical Section | | -- | -- |
| F- Net Technical Income- Life (D - E) | | -- | -- |
| G- Pension Business Technical Income | | -- | -- |
| 1- Fund Management Income | | -- | -- |
| 2- Management Fee | | -- | -- |
| 3- Entrance Fee Income | | -- | -- |
| 4- Management Expense Charge in case of Suspension | | -- | -- |
| 5- Income from Private Service Charges | | -- | -- |
| 6- Increase in Value of Capital Allowances Given as Advance | | -- | -- |
| 7- Other Technical Expense | | -- | -- |
| H- Pension Business Technical Expense | | -- | -- |
| 1- Fund Management Expense | | -- | -- |
| 2- Decrease in Value of Capital Allowances Given as Advance | | -- | -- |
| 3- Operating Expenses | | -- | -- |
| 4- Other Technical Expenses | | -- | -- |
| I- Net Technical Income - Pension Business (G - H) | | -- | -- |

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

ANADOLU ANONİM TÜRK SİGORTA ŞİRKETİ

# CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

(CURRENCY: TURKISH LIRA (TL))

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

| II-NON-TECHNICAL SECTION | Note | Audited Current Period 31 December 2012 | Audited Prior Period 31 December 2011 |
|---|---|---|---|
| C- Net Technical Income – Non-Life (A-B) | | (72,499,795) | (10,068,353) |
| F- Net Technical Income – Life (D-E) | | -- | -- |
| I - Net Technical Income – Pension Business (G-H) | | -- | -- |
| J- Total Net Technical Income (C+F+I) | | (72,499,795) | (10,068,353) |
| K- Investment Income | | 162,601,541 | 144,863,693 |
| 1- Income from Financial Assets | 4.2 | 86,600,903 | 76,519,428 |
| 2- Income from Disposal of Financial Assets | 4.2 | 29,123,033 | 16,308,262 |
| 3- Valuation of Financial Assets | 4.2 | 17,546,543 | 6,237,892 |
| 4- Foreign Exchange Gains | 4.2 | 11,312,773 | 29,252,952 |
| 5- Income from Associates | 4.2 | 16,190,415 | 12,584,160 |
| 6- Income from Subsidiaries and Joint Ventures | | - | - |
| 7- Income from Property, Plant and Equipment | | 1,509,568 | 1,415,210 |
| 8- Income from Derivative Transactions | 4.2 | 293,358 | 2,484,025 |
| 9- Other Investments | | 24,948 | 61,764 |
| 10- Income Transferred from Life Section | | - | - |
| L- Investment Expense | | (154,270,710) | (141,443,031) |
| 1- Investment Management Expenses (inc. interest) | 4.2 | (195,000) | - |
| 2- Diminution in Value of Investments | 4.2 | (4,837,314) | (19,967,729) |
| 3- Loss from Disposal of Financial Assets | 4.2 | (5,218,236) | (9,118,734) |
| 4- Investment Income Transferred to Non-Life Technical Section | | (119,051,082) | (79,355,436) |
| 5- Loss from Derivative Transactions | 4.2 | (311,150) | (9,928,921) |
| 6- Foreign Exchange Losses | 4.2 | (16,217,606) | (15,152,414) |
| 7- Depreciation and Amortization Expenses | 6,8 | (8,440,322) | (7,919,797) |
| 8- Other Investment Expenses | | - | - |
| M- Income and Expenses From Other and Extraordinary Operations | | 8,378,247 | 5,300,606 |
| 1- Provisions | 47 | (8,335,228) | (7,536,624) |
| 2- Rediscounts | 47 | (576,534) | 3,283,472 |
| 3- Specified Insurance Accounts | | - | - |
| 4- Monetary Gains and Losses | | - | - |
| 5- Deferred Taxation (Deferred Tax Assets) | 35 | 17,011,542 | 6,368,048 |
| 6- Deferred Taxation (Deferred Tax Liabilities) | | - | - |
| 7- Other Income | | 645,353 | 3,400,087 |
| 8- Other Expenses and Losses | | (366,886) | (214,377) |
| 9- Prior Year's Income | | - | - |
| 10- Prior Year's Expenses and Losses | | - | - |
| N- Net Profit for the Period | | (55,790,717) | (1,347,085) |
| 1- Profit for the Period | | (55,790,717) | (1,347,085) |
| 2- Corporate Tax Provision and Other Fiscal Liabilities | 35 | -- | -- |
| 3- Net Profit for the Period | | (55,790,717) | (1,347,085) |
| 4- Monetary Gains and Losses | | -- | -- |

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

ANADOLU ANONİM TÜRK SİGORTA ŞİRKETİ

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

(CURRENCY: TURKISH LIRA (TL))

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

Audited Statement of Changes in Equity – 30 June 2011

| | Notes | Paid-in Capital | Own Shares of the Company | Revaluation of Financial Assets |
|---|---|---|---|---|
| I - Balance at the end of the previous year – 31 December 2010 | | 500,000,000 | -- | 28,544,562 |
| II – Change in Accounting Standards | | -- | -- | -- |
| III – Restated balances (I+II) – 1 January 2011 | | 500,000,000 | -- | 28,544,562 |
| A- Capital increase (A1+A2) | | -- | -- | -- |
| 1- In cash | | -- | -- | -- |
| 2- From reserves | | -- | -- | -- |
| B- Purchase of own shares | | -- | -- | -- |
| C- Gains or losses that are not included in the statement of income | | -- | -- | -- |
| D- Change in the value of financial assets | 11,15 | -- | -- | (32,859,135) |
| E- Currency translation adjustments | | -- | -- | -- |
| F- Other gains or losses | | -- | -- | -- |
| G- Inflation adjustment differences | | -- | -- | -- |
| H- Net profit for the period | | -- | -- | -- |
| I – Dividends paid | 2.23 | -- | -- | -- |
| J – Transfers to reserves | 15 | -- | -- | -- |
| II - Balance at the end of the period – 31 December 2011 | | 500,000,000 | -- | (4,314,573) |

Audited Statement of Changes in Equity – 31 December 2012

| | Notes | Paid-inCapital | Own Shares of the Company | Revaluation of Financial Assets |
|---|---|---|---|---|
| I - Balance at the end of the previous year – 31 December 2011 | | 500,000,000 | -- | (4,314,573) |
| II – Change in Accounting Standards | | -- | -- | -- |
| III – Restated balances (I+II) –1 January 2012 | | 500,000,000 | -- | (4,314,573) |
| A- Capital increase (A1+A2) | | -- | -- | -- |
| 1- In cash | | -- | -- | -- |
| 2- From reserves | | -- | -- | -- |
| B- Purchase of own shares | | -- | -- | -- |
| C- Gains or losses that are not included in the statement of income | | -- | -- | -- |
| D- Change in the value of financial assets | 11,15 | -- | -- | 38,943,340 |
| E- Currency translation adjustments | | -- | -- | -- |
| F- Other gains or losses | | -- | -- | -- |
| G- Inflation adjustment differences | | -- | -- | -- |
| H- Net profit for the period | | -- | -- | -- |
| I – Dividends paid | 2.23 | -- | -- | -- |
| J – Transfers to reserves | 15 | -- | -- | -- |
| IV - Balance at the end of the period – 31 December 2012 | | 500,000,000 | -- | 34,628,767 |

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

| Inflation Adjustments | Currency Translation Adjustments | Legal Reserves | Statutory Reserves | Other Reserves and Retained Earnings | Net Profit for the Year | Retained Earnings | Total |
|---|---|---|---|---|---|---|---|
| -- | -- | 39,726,244 | 8,840,543 | 46,863,641 | 41,854,789 | 6,874,276 | 672,704,055 |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | 39,726,244 | 8,840,543 | 46,863,641 | 41,854,789 | 6,874,276 | 672,704,055 |
| -- | -- | -- | -- | -- | -- | -- | -- |
| - | - | - | - | - | -- | -- | -- |
| -- | - | - | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | (32,859,135) |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | (1,347,085) | -- | (1,347,085) |
| -- | -- | -- | -- | -- | (11,106,178) | -- | (11,106,178) |
| -- | -- | 2,798,431 | (407,342) | 20,364,871 | (30,748,611) | 7,992,651 | -- |
| -- | -- | 42,524,675 | 8,433,201 | 67,228,512 | (1,347,085) | 14,866,927 | 627,391,657 |

| Inflation Adjustments | Currency Translation Adjustments | Legal Reserves | Statutory Reserves | Other Reserves and Retained Earnings | Net Profit for the Year | Retained Earnings | Total |
|---|---|---|---|---|---|---|---|
| -- | -- | 42,524,675 | 8,433,201 | 67,228,512 | (1,347,085) | 14,866,927 | 627,391,657 |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | 42,524,675 | 8,433,201 | 67,228,512 | (1,347,085) | 14,866,927 | 627,391,657 |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | 38,943,340 |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | (55,790,717) | -- | (55,790,717) |
| -- | -- | -- | -- | -- | (286,235) | -- | (286,235) |
| -- | -- | 1,393,515 | 1,304,424 | 5,687,503 | 1,633,320 | (10,018,762) | -- |
| -- | -- | 43,918,190 | 9,737,625 | 72,916,015 | (55,790,717) | 4,848,165 | 610,258,045 |

ANADOLU ANONİM TÜRK SİGORTA ŞİRKETİ

# CONSOLIDATED STATEMENT OF CASH FLOWS
# FOR THE YEAR ENDED 31 DECEMBER 2012

(CURRENCY: TURKISH LIRA (TL))

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

| | Note | Audited Current Period 31 December 2012 | Audited Prior Period 31 December 2011 |
|---|---|---|---|
| A - Cash flows from operating activities | | | |
| 1- Cash provided from insurance activities | | 2,365,833,897 | 2,017,042,912 |
| 2- Cash provided from reinsurance activities | | -- | 1,659,041 |
| 3- Cash provided from individual pension business | | -- | -- |
| 4- Cash used in insurance activities | | (2,444,553,481) | (1,931,935,038) |
| 5- Cash used in reinsurance activities | | (6,286,617) | (8,724,373) |
| 6- Cash used in individual pension business | | -- | -- |
| 7- Cash provided by operating activities | | (85,006,201) | 78,042,542 |
| 8- Interest paid | | -- | -- |
| 9- Income taxes paid | 19 | (2,701,247) | (4,245,812) |
| 10- Other cash inflows | | 43,655,931 | 19,682,005 |
| 11- Other cash outflows | | (8,855,353) | 19,088,758 |
| 12-Net cash provided by operating activities | | (52,906,870) | 112,567,493 |
| B - Cash flows from investing activities | | | |
| 1- Proceeds from disposal of tangible assets | | 89,993 | 54,624 |
| 2- Acquisition of tangible assets | 6, 8 | (23,490,999) | (15,726,786) |
| 3- Acquisition of financial assets | 11 | (537,072,037) | (568,896,811) |
| 4- Proceeds from disposal of financial assets | | 529,913,402 | 660,383,282 |
| 5- Interests received | | 152,502,932 | 83,658,139 |
| 6- Dividends received | | 8,000,000 | 9,800,205 |
| 7- Other cash inflows | | - | 33,213,951 |
| 8- Other cash outflows | | (105,949,892) | (277,720,299) |
| 9- Net cash provided by investing activities | | 23,993,399 | (75,233,695) |
| C- Cash flows from financing activities | | | |
| 1- Equity shares issued | | -- | -- |
| 2- Cash provided from loans and borrowings | | -- | -- |
| 3- Finance lease payments | | -- | -- |
| 4- Dividends paid | 38 | -- | (10,774,464) |
| 5- Other cash inflows | | -- | -- |
| 6- Other cash outflows | | -- | -- |
| 7- Net cash used in financing activities | | -- | (10,774,464) |
| D- Effect of exchange rate fluctuations on cash and cash equivalents | | (89,788) | 875,904 |
| E- Net increase in cash and cash equivalents | | (29,003,259) | 27,435,238 |
| F- Cash and cash equivalents at the beginning of the year | 14 | 553,431,748 | 525,996,510 |
| G- Cash and cash equivalents at the end of the year | 14 | 524,428,489 | 553,431,748 |

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

# CONSOLIDATED STATEMENT OF PROFIT DISTRIBUTION FOR THE YEAR ENDED 31 DECEMBER 2012

(CURRENCY: TURKISH LIRA (TL))

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

| | Note | Audited Current Period 31 December 2012 (**) | Audited Prior Period 31 December 2011 |
|---|---|---|---|
| I. DISTRIBUTION OF THE PERIOD PROFIT | | | |
| 1.1. PERIOD PROFIT (*) | | (55,790,717) | (1,427,110) |
| 1.2. TAXES AND DUTIES PAYABLE | | -- | -- |
| 1.2.1. Corporate Tax (Income Tax) | | -- | -- |
| 1.2.2. Income Tax Deductions | | -- | -- |
| 1.2.3. Other Taxes and Legal Duties | | -- | -- |
| A. CURRENT PERIOD PROFIT (1.1 - 1.2) | | (55,790,717) | (1,427,110) |
| 1.3. ACCUMULATED LOSSES (-) | | -- | -- |
| 1.4. FIRST LEGAL RESERVES (-) | | -- | 199,437 |
| 1.5. OTHER STATUTORY RESERVES (-) | | -- | -- |
| B. NET PROFIT AVAILABLE FOR DISTRIBUTION [ (A - (1.3 + 1.4 + 1.5) ] | | (55,790,717) | (1,626,547) |
| 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 BOARD OF DIRECTORS (-) | | -- | -- |
| 1.9. SECOND DIVIDEND TO SHAREHOLDERS (-) | | -- | -- |
| 1.9.1. To owners of ordinary shares | | -- | -- |
| 1.9.2. To owners of privileged shares | | -- | -- |
| 1.9.3. To owners of redeemed shares | | -- | -- |
| 1.9.4. To holders profit sharing bonds | | -- | -- |
| 1.9.5. To holders of profit and loss sharing certificates | | -- | -- |
| 1.10. LEGAL RESERVES (-) | | -- | -- |
| 1.11. STATUTORY RESERVES(-) | | -- | (378,930) |
| 1.12. EXTRAORDINARY RESERVES | | -- | (3,410,366) |
| 1.13. OTHER RESERVES | | -- | -- |
| 1.14. SPECIAL FUNDS | | -- | -- |
| II. DISTRIBUTION OF RESERVES | | -- | -- |
| 2.1. APPROPRIATED RESERVES | | -- | -- |
| 2.2. SECOND LEGAL RESERVES (-) | | -- | -- |
| 2.3. DIVIDENDS TO SHAREHOLDERS (-) | | -- | -- |
| 2.3.1. To owners of ordinary shares | | -- | -- |
| 2.3.2. To owners of privileged shares | | -- | -- |
| 2.3.3. To owners of redeemed shares | | -- | -- |
| 2.3.4. To holders of profit sharing bonds | | -- | -- |
| 2.3.5. To holders of profit and loss sharing certificates | | -- | -- |
| 2.4. DIVIDENDS TO PERSONNEL (-) | | -- | -- |
| 2.5. DIVIDENDS TO BOARD OF DIRECTORS (-) | | -- | -- |
| III. EARNINGS PER SHARE | | -- | -- |
| 3.1. TO OWNERS OF ORDINARY SHARES | | -- | -- |
| 3.2. TO OWNERS OF ORDINARY SHARES (%) | | -- | -- |
| 3.3. TO OWNERS OF PRIVILEGED SHARES | | -- | -- |
| 3.4. TO OWNERS OF PRIVILEGED SHARES (%) | | -- | -- |
| IV. DIVIDEND PER SHARE | | -- | -- |
| 4.1. TO OWNERS OF ORDINARY SHARES | | -- | -- |
| 4.2. TO OWNERS OF ORDINARY SHARES (%) | | -- | -- |
| 4.3. TO OWNERS OF PRIVILEGED SHARES | | -- | -- |
| 4.4. TO OWNERS OF PRIVILEGED SHARES (%) | | -- | -- |

(*) Consolidated current year profit is used for profit distribution as per the "Guidance on profit distribution table" issued by the Capital Market Board weekly bulletin numbered 2010/4. 75% of the gain on sale of investments in equity amounting to TL 80,025 to be transferred to the share capital is not taken into consideration for the year ended 31 December 2011 per Corporate Tax Law article 5 and recorded as "Profit not Available for Distribution" under equity.

(**) As of the report date, the General Assembly Meeting has not been held; therefore, only distributable net profit is presented in the profit distribution table above.

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

(CURRENCY: TURKISH LIRA (TL))

## 1 General Information

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

The shareholding structure of Anadolu Anonim Türk Sigorta Şirketi ("the Company") is presented below. As at 31 December 2012, the shareholder having indirect control over the shares of Anadolu Anonim Türk Sigorta Şirketi ("the Company") is Türkiye İş Bankası A.Ş. ("İş Bankası").

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | Shareholding Amount (TL) | Shareholding Rate (%) | Shareholding Amount (TL) | Shareholding Rate (%) |
| Milli Reasürans T.A.Ş. | 286,550,106 | 57.31 | 286,550,106 | 57.31 |
| Other | 213,449,894 | 42.69 | 213,449,894 | 42.69 |
| Paid in Capital | 500,000,000 | 100.00 | 500,000,000 | 100.00 |

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

The Company was registered in Turkey and has the status of 'Incorporated Company'. The address of the Company's registered office is "Büyükdere Caddesi İş Kuleleri Kule 2 Kat: 22-26, 34330 4. Levent, Istanbul. Besides headquarter, the Company has nine regional offices; two of them established in İstanbul and others established in Antalya, İzmir, Samsun, Adana, Ankara, Trabzon and Bursa, and a branch in Turkish Republic of Northern Cyprus.

### 1.3 Business of the Company

The Company 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 2,726 authorized agencies and 78 unathorized agencies (31 December 2011: 2,688 authorized agencies and 68 unathorized agencies) of which 2,804 agencies (31 December 2011: 2,756 authorized).

### 1.4 Description of the main operations of the Company

The Company conducts its operations in accordance with the Insurance Law No.5684 (the "Insurance Law") issued in 14 June 2007 dated and 26552 numbered Official Gazette and the communiqués and other regulations in force issued by the Turkish Treasury based on the Insurance Law. The Company operates in insurance branches as mentioned above *Note 1.3 Business of the Company*.

The Company's shares have been listed on the Istanbul Stock Exchange ("ISE"), In accordance with Article 50(a) in Section VII of the Capital Markets Law, insurance companies have to comply with their own specific laws and regulations in matters of establishment, auditing, supervision/oversight, accounting and financial reporting; therefore, the Company performs its operations accordingly.

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

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Senior level managers | 8 | 10 |
| Directors | 150 | 138 |
| Intermediate directors | 425 | 371 |
| Officers | 114 | 164 |
| Contracted personnel | 218 | 200 |
| Total | 915 | 883 |

(CURRENCY: TURKISH LIRA (TL))

### 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 is amounting to TL 893,083 (31 December 2011: TL 875,916 TL) and members of the board of the directors, general manager, general coordinator, and deputy general managers is amounting to TL 3,584,890 (31 December 2011: TL 3,801,358).

### 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 companies are allowed to transfer technical section operating expense to insurance section through methods determined by Turkish Treasury or by the Company itself. Methods determined by the Company should be approved by the Turkish Treasury, Known and exactly distinguishable operating expenses are distributed to related branches directly, while operating expenses are distributed to the sub-branches in accordance with the average of 3 ratios calculated by dividing "number of the policies produced within the last three years", "gross premium written within the last three years", and "number of the claims reported within the last three years" to the "total number of the policies", "total gross written premiums" and the "total number of the claims reported", respectively.

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.

### 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 consolidated financial information of the Company and basis of the consolidation is detailed in note 2.2 – *Consolidation*.

The Company owns 20% of Anadolu Hayat Emeklilik Anonim Şirketi ("Anadolu Hayat") and this associate have been consolidated in the accompanying consolidated financial statements by using the equity method of accounting.

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

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

| | |
|---|---|
| Trade name of the Company: | Anadolu Anonim Türk Sigorta Şirketi |
| Registered address of the head office: | Büyükdere Cad. İş Kuleleri Kule 2 Kat 22-26 34330 4.Levent/İstanbul |
| The web page of the Company: | www.anadolusigorta.com.tr |

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

### 1.10 Events after the reporting date

According to Board of Directors' decision dated 9 January 2013 and numbered 6585, the Company decided to increase registered capital from TL 500,000,000 to TL 700,000,000 and change the Articles 6 and 48 of the Articles of Incorporation of the Company. Capital Markets' Board approved the increase of the registered capital.

## 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

In accordance with Article 50 (a) in Section VII of the Capital Markets Law, insurance companies have to comply with their own specific laws and regulations in matters of establishment, auditing, supervision/oversight, accounting and financial reporting. Therefore, the Company maintains its books of account and prepares its financial statements in accordance with the Turkish Accounting Standards ("TAS"), Turkish Financial Reporting Standards ("TFRS"), and other accounting and financial reporting principles, statements and guidance (collectively "the Reporting Standards") in accordance with the "Communiqué Related to the Financial Reporting of Insurance, Reinsurance, and Individual Pension Companies" as promulgated by the Turkish Treasury based on Article 18 of the Insurance Law and Article 11 of the 4632 numbered Individual Pension Savings and Investment System Law ("Individual Retirement 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.

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

#### Additional paragraph for convenience translation to English

The differences between 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.

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

#### Accounting in hyperinflationary countries

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

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

### Other accounting policies

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 Company's functional currency.

### 2.1.4 Rounding scale of the amounts presented in the financial statements

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

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

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

### 2.1.6 Accounting policies, changes in accounting estimates and errors

There are no changes in the accounting policies or errors in the current period.

Critical accounting judgements used in applying the Company's accounting policies are explained in Note 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 31 December 2008 dated and 27097 numbered Official Gazette, has been in force since 31 March 2009. Accordingly, consolidated financial statements are prepared using the equity method of accounting to consolidate the Company's associate; Anadolu Hayat Emeklilik A.Ş.

Accordingly, consolidated financial statements are prepared using the equity method of accounting to consolidate the Company's associate; Anadolu Hayat.

### 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. Since the main economic environment, where the Company operates, is Turkey, a geographical segment reporting has not been presented. A business segment reporting of the Company is presented in Note 5 in accordance with TFRS 8- *Operating Segments* standard.

### 2.4 Foreign currency transactions

Transactions are recorded in TL, which is the Company's functional currency. Transactions in foreign currencies are recorded at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates ruling at the reporting date and foreign currency exchange differences are offset and all exchange differences are recognized in the statement of income.

(CURRENCY: TURKISH LIRA (TL))

Foreign currency exchange differences of unrecognized gains or losses arising from the difference between their fair value and the discounted values calculated per effective interest rate method of foreign currency available-for-sale financial assets are recorded in "Revaluation of financial assets" under equity and the realized gain or losses are recognized directly in the statement of income.

### 2.5 Tangible assets

Tangible assets of the Company are recorded at their historical costs that have been adjusted for the effects of inflation 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 restated for the effects of inflation until 31 December 2004. Tangible assets that have been purchased after 1 January 2005 have been recorded at their costs after deducting any exchange rate differences and finance expenses.

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

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

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

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

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

Depreciation rates and estimated useful lives are as follows:

| Tangible Assets | Estimated Useful Lives (years) | Depreciation Rates (%) |
|---|---:|---:|
| Buildings | 50 | 2.0 |
| Machinery and equipments | 3 - 16 | 6.3 - 33.3 |
| Furniture and fixtures | 4 - 16 | 6.3 - 25.0 |
| Vehicles | 5 | 20.0 |
| Other tangible assets (including leasehold improvements) | 5 - 10 | 10.0 - 20.0 |
| Leased tangible assets | 4 - 10 | 10.0 - 25.0 |

### 2.6 Investment properties

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

Investment properties are measured initially at cost including transaction costs.

Subsequent to initial recognition, the Company measured all investment properties 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).

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

### 2.7 Intangible Assets

The Company's intangible assets consist of computer software, goodwill and advances paid for tangible assets.

Intangible assets are recorded at cost in compliance with "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.

Amortization is charged on a straight-line basis over their estimated useful lives over the cost of the asset.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company'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 Company 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 Company.

### 2.8 Financial assets

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

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 is recorded in profit/loss. Interest income earned on trading purpose financial assets and the difference between their fair values and acquisition costs are recorded as interest income in the statement of income. In case of disposal of such financial assets before their maturities, the gains/losses on such disposal are recorded under trading income/losses. Accounting policies of derivatives are detailed in note 2.10 – D*erivative 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. The Company has no financial assets that are not allowed to be classified as held to maturity financial assets for two years due to the tainting rules applied for the breach of classification rules.

*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. Unrecognized gains or losses derived from the difference between their fair value and the discounted values calculated per effective interest rate method are recorded in "Revaluation of financial assets" under shareholders' equity. Upon disposal, the realized gain or losses are recognized directly in the statement of income.

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

The Company has accounted equity shares classified as available-for-sale according to quoted market prices or dealer price quotations for financial instruments traded in active markets or according to cost less impairment losses for financial instruments not traded in active markets.

TAS 27 – *Consolidated and Separate Financial Statements*, subsidiaries, associates and joint-ventures could be accounted in accordance with TAS 39 – *Financial Instruments: Recognition and Measurement* or at cost in accordance with the 37th paragraph of TAS 27 – *Consolidated and Separate Financial Statements*. Parallel to the related sector announcements mentioned above, as at the reporting date the Company has accounted for its associate at fair value based on quoted market price.

Securities are recognized and derecognized at the date of settlement.

*Associates*; Anadolu Hayat has been consolidated in the accompanying consolidated financial statements 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 assets

### Impairment on financial asset

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 Company estimates the amount of impairment. A financial asset is impaired 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 operations. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in equity.

### Impairment on tangible and intangible assets

On each reporting date, the Company evaluates whether there is an indication of impairment of tangible and intangible 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 period are detailed in *Note 47*.

## 2.10 Derivative financial instruments

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

Derivative financial instruments are initially recognized at their fair value.

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

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

## 2.11 Offsetting of financial assets

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

(CURRENCY: TURKISH LIRA (TL))

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

### 2.12 Cash and cash equivalents

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

### 2.13 Share capital

The shareholder having direct or indirect control over the shares of the Company is İş Bankası Group. As at 31 December 2012 and 31 December 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 (%) |
| Milli Reasürans T.A.Ş. | 286,550,106 | 57.31 | 286,550,106 | 57.31 |
| Other | 213,449,894 | 42.69 | 213,449,894 | 42.69 |
| Paid in Capital | 500,000,000 | 100.00 | 500,000,000 | 100.00 |

#### Privileges on common shares representing share capital

As at 31 December 2012, the issued share capital of the Company is TL 500,000,000 (31 December 2011: TL 500,000,000) and the share capital of the Company consists of 50,000,000,000 (31 December 2011: 50,000,000,000 shares) issued shares with TL 0.01 nominal value each. The Company's share capital is divided into group A and group B shares. The share capital is represented by 150 Group A shares of TL 0.01 each and Group B shares of the remaining amount.

The only privilege of Group A shares is about voting right at General Assembly meetings as Group A shares have 10 voting rights whereas Group B shares have 1 voting right.

#### Registered capital system in the Company

The Company has accepted the registered capital system. As of 31 December 2012, the Company's registered capital is TL 500,000,000 (31 December 2011: TL 500,000,000). In accordance with The Company's Board of Directors numbered 6585 and dated 9 January 2013, the company decided to raise the registered capital from TL 500,000,000 to TL 700,000,000 and change the Company's articles of 6 and 48 agents. Necessary applications to CMB in order to the registered capital is done but as the date of the report not yet ratified.

#### Repurchased own shares by the Company

None.

### 2.14 Insurance and investments contracts – classification

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

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

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

## 2.15 Insurance contracts and investment contracts with discretionary participation feature

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

*(i)* that are likely to comprise a significant portion of the total contractual benefits;

*(ii)* whose amount or timing is contractually at the discretion of the Issuer; and

*(iii)* that are contractually based on:

*(1)* the performance of a specified pool of contracts or a specified type of contract;

*(2)* realized and/or unrealized investments returns on a specified pool of assets held by the Issuer; or

*(3)* the profit or loss of the Company, Fund or other entity that issues the contract.

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

## 2.16 Investment contracts without DPF

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

## 2.17 Liabilities

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

## 2.18 Income taxes

### Corporate tax

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

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

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

In accordance with the tax legislation, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods. As at 31 December 2012, the Company has deductible tax losses, amounting to TL 81,604,330 (31 December 2011: TL 6,424,063).

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 taxes

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.

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

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

### Transfer pricing

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

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

### 2.19 Employee benefits

### Pension and other post-retirement obligations

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee and his/her dependents 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 "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 a aforementioned Law published in the Official Gazette numbered 26870 and dated 8 May 2008. The related three-year transfer period has been prolonged for two years by the Cabinet decision, which was published on the Official Gazette dated 9 April 2011. Accordingly, the three-year period expired on 8 May 2011 was extended to the 8 May 2013. The principles and applications of the transfer will be determined by the Decree of the Council of Ministers separately.

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.

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))

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 31 December 2011 are as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Discount rate | 3.18% | 4.50% |
| Expected rate of salary/limit increase | 4.40% | 4.50% |
| Estimated employee turnover rate | 4.08% | 2.22% |

Expected rate of salary/limit increase above was determined according to the government's annual inflation forecasts.

### Other benefits

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

## 2.20 Provisions

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

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

## 2.21 Revenue recognition

### Written premiums and claims paid

Written premiums represent premiums on policies written during the period net of taxes, premiums of the cancelled policies which were produced in prior periods and premium ceded to reinsurance companies. Premiums ceded to reinsurance companies are accounted as "written premiums, ceded" in the statement of income.

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 insure. 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 Company 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*) net subrogation and salvage receivables under receivables from main operations. The Company 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.

(CURRENCY: TURKISH LIRA (TL))

For the year 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 vehicles | -- | 12,000 |
| Total | 233,350,243 | 186,033,240 |

As at 31 December 2012 and 31 December 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 responsibility | 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 expense

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

### Interest income and expense

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

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

### Trading income/expense

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

### Dividends

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

### 2.22 Leasing transactions

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

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

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

### 2.23 Dividend distribution

Based on the guidelines and principals issued by the CMB dated 27 January 2010 for the distribution of dividends from the profit generated from operating activities in 2009, concerning public entities, the shares of which are quoted in public equity markets, it has been agreed upon not to set a mandatory minimum dividend payment quota. Furthermore, it has been agreed upon to let public entities perform dividend distributions as stated within the "Communiqué Concerning Principal Matters on Dividend Advances Distributed by Public Entities Under the Regulation of the Capital Markets Law" (Serial: IV, No: 27), as stated within the principal agreement of the companies and as stated within the policies on dividend distribution that have been shared with the public.

Additionally, as stated within the aforementioned decision of CMB, for entities required to prepare consolidated financial statements, it has been agreed upon to require the net distributed profit calculations to be performed on the net profit for the period as stated on the consolidated financial statements, so long that the distribution can be funded through statutory resources.

In this context, profit distribution is not performed in the current period since the Company recorded TL 1,347,085 consolidated loss in 2011.

### 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. 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.

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.

According to the 2009/9 Numbered Circular Related to Application of Technical Reserves issued on 27 March 2009 reserve for unearned premiums is calculated by taking into account that all polices become active at 12:00 at noon and end at 12:00 at noon.

According to the Communiqué on Technical Reserves, for the calculation of unearned premium reserves of foreign currency indexed insurance agreements, foreign currency selling exchange rates announced by Turkish Central Bank will be considered, unless there is a specified exchange rate in the agreement.

As at the reporting date, the Company has provided reserve for unearned premiums amounting to TL 1,104,218,773 (31 December 2011: TL 1,014,113,766) and reinsurer share in reserve for unearned premiums amounting TL 218,883,986 (31 December 2011: TL 203,119,196). Furthermore, reserve for unearned premiums includes Social Security Institution ("SSI") share amounting to TL 20,200,015 (31 December 2011: TL 14,079,233) as at 31 December 2012.

### 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. Incurred but not reported claims ("IBNR") are also provided.

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.

As at 1 January 2012, 100% of the calculated negative IBNR balances per each insurance branch are taken into calculation in accordance with the Circular issued by the Turkish Treasury dated 26 December 2011 and numbered 2011/23. Accrued salvage, subrogation and similar income is taken into calculation with collections in ACLM method.

In accordance with the temporary articles of the Communiqué on Technical Reserves, companies may use at least 80% and 90% of the result of the IBNR calculated by ACLM method or test IBNR for 2010 and 2011, respectively. 100% should be accounted in the financial statements as at 2012 although early implementation of 100% is permitted. Accordingly, the Company recorded 100% of the IBNR calculated by ACLM method amounting to TL 49,391,050 to the consolidated financial statements as IBNR and TL 438,092 as reinsurer's share of IBNR.

Result of the test IBNR is higher than IBNR calculated by ACLM method as at 31 December 2011 and the Company recorded 100% of the test IBNR result amounting to TL 65,659,140 to the consolidated financial statements as IBNR and TL 7,538,212 as reinsurer's share of IBNR.

In accordance with "Circular Related to Information on Calculation of Incurred But Not Reported Claims Reserve" numbered 2011/23 and dated 26 November 2011, companies may decrease their outstanding claims reserve balances based on the winning ratio of the sub-branches calculated from the last five years claims. Winning ratio used for decrease in provision for outstanding claims could not exceed 25% (15% for the new sub-branches which do not have five year data). Based on the aforementioned regulation, the Company 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.

(CURRENCY: TURKISH LIRA (TL))

The calculated winning ratio 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<br>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<br>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 |

ACLM to be used is announced with “Communiqué on Technical Reserves” which is issued by the Turkish Treasury on 20 September 2010, Insurance and reinsurance companies are allowed to use five different methods which are “Standard Chain, Claim/Premium, Cape Code, Frequency/Volume and Munich Chain Ladder” to make ACLM calculations. The Company’s method selections for each branch are presented below. The Company has performed big claim elimination with the Box Plot method, Net IBNR amount is calculated on branch basis by taking effective reinsurance agreements and current reinsurance rates into account.

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Motor vehicles | Munich Chain Ladder | Munich Chain Ladder |
| Water vehicles | Standard Chain Ladder | Standard Chain Ladder |
| Third party liability for motor vehicles (MTPL) | Munich Chain Ladder | Munich Chain Ladder |
| Third party liability | Munich Chain Ladder | Munich Chain Ladder |
| Third party liability for air vehicles | Standard Chain Ladder | Standard Chain Ladder |
| Fire and natural disasters | Munich Chain Ladder | Munich Chain Ladder |
| Air crafts | Standard Chain Ladder | Standard Chain Ladder |
| Accident | Standard Chain Ladder | Standard Chain Ladder |
| General losses | Munich Chain Ladder | Munich Chain Ladder |
| Financial losses | Standard Chain Ladder | Standard Chain Ladder |
| Health | Standard Chain Ladder | Standard Chain Ladder |
| Transportation | Standard Chain Ladder | Standard Chain Ladder |
| Credit | Standard Chain Ladder | Standard Chain Ladder |
| Legal protection | Standard Chain Ladder | Standard Chain Ladder |
| General liability | Munich Chain Ladder | Munich Chain Ladder |

### 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 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 Company is 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" for the period ended 31 December 2012. Furthermore, in accordance with the 28 September 2012 dated Undersecretariat of Treasury document, additional TL 28,776 TL is booked at the same account for the liabilities from year 2011.

### 2.26 Reserve for unexpired risks

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.

In accordance with Treasury circular numbered 2012/15, unexpired risk reserve started to be calculated over main branches as of December 31, 2012. The test is performed on branch basis and in case where the expected claim/premium ratio is higher than 95%, reserve calculated by multiplying the exceeding portion of the expected claim/premium ratio with the reserve for unearned premiums of that specific branch is added to the reserves of that branch. Accordingly, as at the reporting date, the Company has provided net reserve for unexpired risk amounting to TL 9,710,946 (31 December 2011: TL 32,181,716) and unexpired risk amounting of reassurance to TL 5,613,423 (31 December 2011: TL 13,461,252) in the accompanying consolidated financial statements

As at 31 December 2012, reserve for unexpired risks at the beginning of the period is revised according to calculation method used in the current period in order to determine consistent claims/premium ratio, According to the Circular numbered 2011/10 and dated 3 June 2011, reserve for unexpired risks is calculated by using 100% of the current period and previous period outstanding claims reserve determined by the new method and used in expected claims/premium ratio.

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.

### 2.27 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 un-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. Equalization provisions are presented under "other technical reserves" in the accompanying financial statements. As at the reporting date, the Company provided equalization provision amounting to TL 32,157,249 in the accompanying consolidated financial statements (31 December 2011: TL 20,519,045).

Net losses (after reinsurance) resulted from earthquake occurred in Van amounting to TL 6,425,552 (31 December 2011: TL 5,824,550) are decreased from prior periods' equalization provision.

### 2.28 Related parties

Parties are considered related to the Company if;

(a) directly, or indirectly through one or more intermediaries, the party:

- controls, is controlled by, or is under common control with the Company (this includes parent, subsidiaries and fellow subsidiaries);
- has an interest in the Company that gives it significant influence over the Company; or
- has joint control over the Company;

(b) the party is an associate of the Company;

(c) the party is a joint venture in which the Company is a venturer;

(d) the party is member of the key management personnel of the Company and its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled or significantly influenced by, or for which significant voting power in such entity resides with directly or indirectly, any individual referred to in (d) or

(g) the party is a post-employment benefit plan for the benefit of employees of the Company, or of any entity that is a related party of the Company.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

A number of transactions are entered into with related parties in the normal course of business.

### 2.29 Earnings per share

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

### 2.30 Events after the reporting date

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

### 2.31 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 IFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. An entity shall apply TFRS 13 for annual periods beginning on or after 1 January 2013.

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

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

- Amendments to TAS 1 – "*Presentation of Items of Other Comprehensive Income*" are effective for annual periods beginning on or after 1 July 2012, The amendments to TAS 1 change only the grouping of items presented in other comprehensive income, Items that could be reclassified (or recycled) to profit or loss at a future point in time would be presented separately from items which will never be reclassified.
- IFRS 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.
- IFRS 11 *Joint Arrangements* focuses on the rights and obligations of joint arrangements, rather than the legal form (as is currently the case) and supersedes IAS 31 J*ointly Controlled Entities—Non-Monetary Contributions by Venturers.* The standard is effective for annual periods beginning on or after 1 January 2013.
- IFRS 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.
- IAS 12- *Income Taxes* contains the recovery of the issues related with deferred tax assets. The standard is effective for annual periods beginning on or after 1 January 2012.
- IAS 27 *Separate Financial Statements* (2011) supersedes IAS 27 (2008). IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The standard is effective for annual periods beginning on or after 1 January 2013.

- IAS 28 *Investments in Associates and Joint Ventures* (2011) supersedes IAS 28 (2008). IAS 28 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The standard is effective for annual periods beginning on or after 1 January 2013.
- IFRS 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 financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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

Note 4.1 – *Management of insurance risk*

Note 4.2 – *Financial risk management*

Note 10 – *Reinsurance assets/liabilities*

Note 11 – *Financial assets*

Note 12 – *Loans and receivables*

Note 17 – *Insurance liabilities and reinsurance assets*

Note 17 – *Deferred acquisition costs*

Note 19 – *Trade and other payables, deferred income*

Note 21 – *Deferred income taxes*

Note 23 – *Provisions for other liabilities and charges*

## 4 Management of insurance and financial risk

### 4.1 Management of insurance risk

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 company and coverage portion transfers to policyholders and transfer conditions.

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

Potential risks that may be exposed in transactions are managed based on the requirements set out in the Company's "Risk Management Policies" issued by the approval of the Board of Directors. The main objective of risk management policies 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.

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

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

It is essential that all the authorized personnel in charge of executing policy issuance transactions, which is the initial phase of insurance process, should ensure to gather or provide all the accurate and complete information to issue policies in order to obtain evidence on the acceptable risks that the Company 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.

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.

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

### *Sensitivity to insurance risk*

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

The case of potential claims' arising from earthquake and other catastrophic risks exceeding the maximum limit of the excess of loss agreements, such risks are treated as the primary insurance risks and are managed based on the precautionary principle. Maximum limit of excess of loss agreements is determined based on the worst case scenario on the possibility of an earthquake that Istanbul might be exposed to in terms of its severity and any potential losses incurred in accordance with the generally accepted international earthquake models. The total amount of protection for catastrophic risks of the company is identified taking into the compensation amount for an earthquake will occur in a 1000 years.

(CURRENCY: TURKISH LIRA (TL))

*Insurance risk concentration*

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

| Total claims liability (*) 31 December 2012 | Gross total claims liability | Reinsurance share of total claims liability | Net total claims liability |
|---|---|---|---|
| Motor vehicles liability (MTPL) | 252,623,995 | (11,443,379) | 241,180,616 |
| General liability | 91,606,279 | (5,652,930) | 85,953,349 |
| Motor vehicles | 67,249,281 | 2,121,099 | 69,370,380 |
| General losses | 57,226,369 | (33,723,748) | 23,502,621 |
| Fire and natural disasters | 56,902,189 | (18,066,609) | 38,835,580 |
| Transportation | 21,473,659 | (11,712,733) | 9,760,926 |
| Water vehicles | 16,429,882 | (7,349,524) | 9,080,358 |
| Accident | 10,711,734 | (304,219) | 10,407,515 |
| Financial losses | 3,186,232 | (2,739,778) | 446,454 |
| Air crafts liability | 1,428,133 | (431,392) | 996,741 |
| Health | 1,278,191 | (26,789) | 1,251,402 |
| Credit | 1,243,634 | (92,519) | 1,151,115 |
| Legal protection | 158,710 | -- | 158,710 |
| Air crafts | (2,727,394) | (17,910) | (2,745,304) |
| Total | 578,790,894 | (89,440,431) | 489,350,463 |

| Total claims liability (*) 31 December 2011 | Gross total claims liability | Reinsurance share of total claims liability | Net total claims liability |
|---|---|---|---|
| Motor vehicles liability (MTPL) | 165,544,547 | (9,649,555) | 155,894,992 |
| General liability | 58,859,753 | (3,829,404) | 55,030,349 |
| Motor vehicles | 61,741,879 | (3,251,568) | 58,490,311 |
| General losses | 43,648,879 | (13,833,780) | 29,815,099 |
| Fire and natural disasters | 22,581,273 | (1,513,145) | 21,068,128 |
| Transportation | 38,985,340 | (16,052,164) | 22,933,176 |
| Water vehicles | 10,941,697 | (1,247,942) | 9,693,755 |
| Accident | 6,606,954 | (191,130) | 6,415,824 |
| Financial losses | 9,241,803 | (4,957,684) | 4,284,119 |
| Air crafts liability | 1,124,280 | (11,939) | 1,112,341 |
| Health | 310,767 | (3,713) | 307,054 |
| Credit | 132,146 | -- | 132,146 |
| Legal protection | 311,228 | (20,736) | 290,492 |
| Air crafts | 4,201,477 | (4,008,563) | 192,914 |
| Total | 424,232,023 | (58,571,323) | 365,660,700 |

(*) Total claims liability includes outstanding claims reserve (excluding contingent amounts deducted from claims reserve determined by winning probability) and incurred but not reported claims.

Gross and net insurance risk concentrations of the insurance contracts (after reinsurance) based on geographical regions are summarized as below:

| Total claims liability (*) 31 December 2012 | Gross total claims liability | Reinsurance share of total claims liability | Net total claims liability |
|---|---|---|---|
| Turkey | 542,199,837 | (101,387,616) | 440,812,221 |
| Europe | 8,141,420 | (2,772,713) | 5,368,707 |
| Asia | 4,030 | -- | 4,030 |
| Africa | 288,633 | (23,951) | 264,682 |
| America | 333,041 | (180,172) | 152,869 |
| Total | 550,966,961 | (104,364,452) | 446,602,509 |

(CURRENCY: TURKISH LIRA (TL))

| Total claims liability 31 December 2011 | Gross total claims liability | Reinsurance share of total claims liability | Net total claims liability |
|---|---|---|---|
| Marmara Region | 275,040,813 | (68,108,016) | 206,932,797 |
| Middle Anatolian Region | 69,762,551 | (6,879,608) | 62,882,943 |
| Aegean Region | 53,954,484 | (3,441,421) | 50,513,063 |
| Mediterranean Region | 54,313,542 | (12,461,090) | 41,852,452 |
| Black Sea Region | 37,249,132 | (5,622,844) | 31,626,288 |
| East Anatolian Region | 25,420,411 | (3,340,688) | 22,079,723 |
| South East Anatolian Region | 26,458,904 | (1,533,949) | 24,924,955 |
| Total | 542,199,837 | (101,387,616) | 440,812,221 |

(*) Total claims liability includes estimated compensation amounts for realized claims. Gross incurred but not reported claims amounting to TL 49,391,050 could not be distributed to geographical regions amounting to TL 25,841,375 and the contingent amounts deducted from claims reserve amounting to TL (47,408,492) are excluded from the table.

| Total claims liability (*) 31 December 2011 | Gross total claims liability | Reinsurance share of total claims liability | Net total claims liability |
|---|---|---|---|
| Turkey | 364,227,481 | (52,361,395) | 311,866,086 |
| Europe | 9,336,786 | (2,434,090) | 6,902,696 |
| America | 4,310 | -- | 4,310 |
| Asia | 417,548 | (69,011) | 348,537 |
| Africa | 275,073 | (182,920) | 92,153 |
| Total | 374,261,198 | (55,047,416) | 319,213,782 |

| Total claims liability 31 December 2011 | Gross total claims liability | Reinsurance share of total claims liability | Net total claims liability |
|---|---|---|---|
| Marmara Region | 167,492,187 | (25,776,344) | 141,715,843 |
| Middle Anatolian Region | 51,064,182 | (6,335,649) | 44,728,533 |
| Aegean Region | 36,922,690 | (3,921,015) | 33,001,675 |
| Mediterranean Region | 39,273,624 | (7,684,776) | 31,588,848 |
| Black Sea Region | 26,850,040 | (3,887,806) | 22,962,234 |
| South East Anatolian Region | 22,365,392 | (2,711,806) | 19,653,586 |
| East Anatolian Region | 20,259,366 | (2,043,999) | 18,215,367 |
| Total | 364,227,481 | (52,361,395) | 311,866,086 |

(*) Total claims liability includes estimated compensation amounts for realized claims. Gross incurred but not reported claims amounting to TL 65,659,140, outstanding claims of treaty activities which could not be distributed to geographical regions amounting to TL 21,218,056 and the contingent amounts deducted from claims reserve amounting to TL (36,906,371) are excluded from the table.

## Given insurance collateral amounts in respect to branches

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Motor vehicles liability (MTPL) | 4,208,835,922,827 | 4,247,137,811,767 |
| Fire and natural disasters | 187,016,811,741 | 153,850,439,250 |
| Health | 180,654,186,615 | 175,275,589,659 |
| General liability | 37,956,651,812 | 23,408,849,888 |
| Accident | 34,510,916,625 | 34,799,629,889 |
| Motor vehicles | 31,486,496,626 | 27,690,515,766 |
| General Loses | 30,216,737,696 | 21,803,939,997 |
| Transportation | 17,354,547,085 | 14,765,026,140 |
| Water vehicles | 15,842,442,850 | 12,464,220,179 |
| Air crafts | 1,503,340,453 | 1,961,268,707 |
| Legal protection | 760,006 | -- |
| Total | 4,745,378,814,336 | 4,713,157,291,242 |

### 4.2 Management of financial risk

#### Introduction and overview

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

- credit risk
- liquidity risk
- market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. Duties and responsibilities of the Risk Management and Internal Control Department include design and implementation of risk management system and identification and implementation of risk management policies. It is also responsible for ensuring that the Company implements all necessary risk management techniques. Activities of the Risk Management and Internal Control Department are managed directly by General Manager. The Board of Directors monitors the effectiveness of the risk management system through the internal audit department.

Risk management policies and guidelines are set by the Board of Directors and applied by the top management. These policies include organisation and scope of the risk management function, risk measurement and assessment methods, duties and responsibilities of the Board of Directors, top management and all of the employees, procedures followed in the case of limit extension and compulsory approval and confirmation processes for certain situations.

#### Credit Risk

Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The balance sheet items that the Company is exposed to credit risks are as follows:

- Cash at banks
- Other cash and cash equivalents
- Available for sale financial assets (except equity-shares)
- Financial assets held for trading (except equity-shares)
- Held to maturity financial asset
- Premium receivables from policyholders
- Receivables from intermediaries (agencies)
- Receivables from reinsurance companies related to commissions and claims paid
- Reinsurance shares of insurance liability
- Receivables from related parties
- Other receivables

Reinsurance contracts are the most common method to manage insurance risk. This does not, however, discharge the Company's liability as the primary insurer. If a reinsurer fails to pay a claim for any reason, the Company 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.

(CURRENCY: TURKISH LIRA (TL))

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)* | 969,566,847 | 913,021,303 |
| Receivables from main operations *(Note 12)* | 646,879,957 | 553,528,183 |
| Financial assets *(Note 11)* (*) | 219,223,552 | 256,209,429 |
| Reinsurer share in provision for outstanding claims *(Note 10), (Note 17)* | 89,440,431 | 58,571,323 |
| Prepaid taxes and funds *(Note 19)* | 10,640,156 | 7,938,909 |
| Other receivables *(Note 12* | 2,195,501 | 1,869,978 |
| Other prepaid expenses *(Note 10)* | 2,365,311 | 6,063,976 |
| Other miscellaneous current assets *(Not 12)* | 629,359 | 1,029,887 |
| Due from related parties *(Note 12)* | 1,445,693 | 90,230 |
| Total | 1,942,386,807 | 1,798,323,218 |

(*) Equity shares amounting to TL 136,198,740 are not included (31 December 2011: TL 79,693,826).

As at 31 December 2012 and 31 December 2011, the aging of the receivables from main operations is as follows:

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | Gross Amount | Provision | Gross Amount | Provision |
| Not past due | 447,676,929 | -- | 387,807,418 | -- |
| Past due 0-30 days | 78,026,586 | -- | 46,045,098 | -- |
| Past due 31-60 days | 13,000,945 | -- | 11,426,198 | -- |
| Past due 61-90 days | 5,815,411 | -- | 3,644,814 | -- |
| More than 90 days (*) | 108,939,823 | (87,996,612) | 92,973,712 | (82,451,564) |
| Total (**) | 653,459,694 | (87,996,612) | 541,897,240 | (82,451,564) |

(*) 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.

(**) Except for TL 653,459,694 (31 December 2011: TL 541,897,249) presented under receivables from insurance operations in the financial statements, this amount also 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 2011: TL 39,723,166) of subrogation and salvage receivables. Subrogation receivables having past over 4 months for individuals and 6 months for legal entities but not transferred to legal follow-up amounting to TL 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 period | 82,451,564 | 72,569,506 |
| Collections during the period *(Note 47)* | (721,494) | (2,155,254) |
| 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 |
| Provision for receivables from insurance operations at the end of the period | 87,996,612 | 82,451,564 |

### Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash commitments associated with financial instruments.

*Management of the liquidity risk*

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

(CURRENCY: TURKISH LIRA (TL))

Maturity distribution of monetary assets and liabilities:

| 31 December 2012 | Carrying amount | Up to 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | Over 1 year | Unallocated |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 968,521,375 | 419,537,453 | 516,013,673 | 15,081,195 | 17,889,054 | -- | -- |
| Financial assets | 355,422,292 | 21,583,263 | 22,917,436 | 1,946,740 | 21,491,716 | 122,475,477 | 165,007,660 |
| Receivables from main operations | 646,879,957 | 59,058,395 | 255,849,629 | 250,102,496 | 74,829,667 | 7,039,770 | -- |
| Due from related parties | 1,445,693 | -- | 1,445,693 | -- | -- | -- | -- |
| Other receivables and current assets | 2,673,334 | 553,086 | 1,106,173 | 754,496 | 259,579 | -- | -- |
| Other prepaid expenses | 2,365,311 | -- | -- | -- | 2,365,311 | -- | -- |
| Total monetary assets | 1,977,307,962 | 500,732,197 | 797,332,604 | 267,884,927 | 116,835,327 | 129,515,247 | 165,007,660 |
| | | | | | | | |
| Insurance technical provisions (*) | 489,350,463 | 88,430,870 | 176,861,745 | 32,284,573 | 32,373,118 | 159,400,157 | -- |
| Payables arising from main operations | 198,973,610 | 43,576,474 | 4,568,932 | 143,633,730 | 7,194,474 | -- | -- |
| Due to related parties | 15,494 | -- | -- | -- | -- | 15,494 | -- |
| Other liabilities | 61,006,748 | 18,955,149 | 14,884,995 | 1,571,951 | 690,830 | 26,203,681 | (1,299,858) |
| Provisions for taxes and other similar obligations | 16,325,270 | -- | 16,325,270 | -- | -- | -- | -- |
| Provisions for other risks and expense accruals | 31,243,630 | -- | 21,387,419 | -- | -- | 9,856,211 | -- |
| Total monetary liabilities | 796,915,215 | 150,962,493 | 234,028,361 | 177,490,254 | 40,258,422 | 195,475,543 | (1,299,858) |

(*) 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.

| 31 December 2011 | Carrying amount | Up to 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | Over 1 year | Unallocated |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 911,631,717 | 480,500,221 | 282,615,670 | 147,244,247 | 1,210,490 | -- | 61,089 |
| Financial assets | 335,903,255 | 54,123,379 | 33,720,540 | 16,943,258 | 18,130,048 | 133,292,204 | 79,693,826 |
| Receivables from main operations | 553,528,183 | 52,244,815 | 228,066,944 | 208,181,430 | 58,611,228 | 6,423,766 | -- |
| Due from related parties | 90,230 | 15,038 | 30,077 | 30,077 | 15,038 | -- | -- |
| Other receivables and current assets | 2,835,953 | 513,540 | 1,027,080 | 803,918 | 491,415 | -- | -- |
| Other prepaid expenses | 6,063,976 | -- | 6,063,976 | -- | -- | -- | -- |
| Total monetary assets | 1,810,053,314 | 587,396,993 | 551,524,287 | 373,202,930 | 78,458,219 | 139,715,970 | 79,754,915 |
| | | | | | | | |
| Insurance technical provisions (*) | 365,660,700 | 66,078,805 | 132,157,614 | 24,124,223 | 24,190,387 | 119,109,671 | -- |
| Payables arising from main operations | 172,569,477 | 54,554,414 | 14,486,098 | 96,901,223 | 6,627,742 | -- | -- |
| Due to related parties | 15,494 | -- | -- | -- | -- | 15,494 | -- |
| Other liabilities | 43,362,055 | 16,239,693 | 7,636,335 | 244,591 | -- | 19,241,436 | -- |
| Provisions for taxes and other similar obligations | 16,770,948 | -- | 16,770,948 | -- | -- | -- | -- |
| Provisions for other risks and expense accruals | 21,940,598 | -- | 14,747,530 | -- | -- | 7,193,068 | -- |
| Total monetary liabilities | 620,319,272 | 136,872,912 | 185,798,525 | 121,270,037 | 30,818,129 | 145,559,669 | -- |

(*) 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 rates, foreign exchange rates and credit spreads will affect the Company's income or the value of its holdings of financial instruments, The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk, *Currency risk*

(CURRENCY: TURKISH LIRA (TL))

The Company is exposed to 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 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 income,

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

| 31 December 2012 | US Dollar | Euro | Other currencies | Total |
|---|---|---|---|---|
| Receivables from main operations | 82,386,146 | 37,511,128 | 936,329 | 120,833,603 |
| Financial assets | -- | 10,871,446 | -- | 10,871,446 |
| Cash and cash equivalents | 52,455,145 | 8,274,248 | 1,422,531 | 62,151,924 |
| Total foreign currency assets | 134,841,291 | 56,656,822 | 2,358,860 | 193,856,973 |
| Insurance technical provisions | 67,869,975 | 26,439,452 | 2,527,918 | 96,837,345 |
| Payables arising from main operations | 82,205,877 | 37,378,301 | 904,250 | 120,488,428 |
| Total foreign currency liabilities | 150,075,852 | 63,817,753 | 3,432,168 | 217,325,773 |
| Net financial position | (15,234,561) | (7,160,931) | (1,073,308) | (23,468,800) |

| 31 December 2011 | US Dollar | Euro | Other currencies | Total |
|---|---|---|---|---|
| Receivables from main operations | 61,756,133 | 27,472,464 | 1,200,895 | 90,429,492 |
| Financial assets | -- | 7,251,005 | -- | 7,251,005 |
| Cash and cash equivalents | 35,174,871 | 6,755,154 | 1,773,554 | 43,703,579 |
| Total foreign currency assets | 96,931,004 | 41,478,623 | 2,974,449 | 141,384,076 |
| Insurance technical provisions | 33,124,452 | 18,418,128 | 2,125,065 | 53,667,645 |
| Payables arising from main operations | 61,362,061 | 27,281,995 | 1,163,198 | 89,807,254 |
| Total foreign currency liabilities | 94,486,513 | 45,700,123 | 3,288,263 | 143,474,899 |
| Net financial position | 2,444,491 | (4,221,500) | (313,814) | (2,090,823) |

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

Foreign currency transactions are recorded at the foreign exchange rates ruling at the dates of the transactions and foreign currency denominated monetary items are evaluated by the Central Bank of the Republic of Turkey's spot purchase rates as at 31 December 2012.

*Exposure to currency risk*

Foreign currency rates used for the translation of foreign currency denominated assets and liabilities as at 31 December 2012 and 31 December 2011 are as follows:

| | US Dollar | Euro |
|---|---|---|
| 31 December 2012 | 1.7826 | 2.3517 |
| 31 December 2011 | 1.8889 | 2.4438 |

(CURRENCY: TURKISH LIRA (TL))

A 10 percent depreciation of the TL against the following currencies as at 31 December 2012 and 31 December 2011 would have increased or decreased equity and profit or loss (excluding tax effects) by the amounts shown below, This analysis assumes that all other variables, in particular interest rates, remain constant, In case of a 10 percent appreciation of the TL against the following currencies, the effect will be in opposite direction.

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | Profit or loss | Equity (*) | Profit or loss | Equity (*) |
| US Dollar | (1,523,456) | (1,523,456) | 244,449 | 244,449 |
| Euro | (716,093) | (716,093) | (422,150) | (422,150) |
| Other | (107,331) | (107,331) | (31,381) | (31,381) |
| Total, net | (2,346,880) | (2,346,880) | (209,082) | (209,082) |

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

*Exposure to interest risk*

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

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| *Financial assets with fixed interest rates:* | | |
| Financial assets held for trading – reverse repos *(Note 11)* | 5,542,173 | 2,567,331 |
| Cash at banks *(Note 14)* (*) | 792,779,438 | 672,098,246 |
| Available for sale financial assets – Private debt securities *(Note 11)* | 40,904,798 | 41,091,831 |
| Cash deposited to insurance and reinsurance companies *(Note 12)* | 3,906,064 | 3,059,613 |
| Available for sale financial assets – Government bonds *(Note 11)* | 29,499,619 | 20,040,604 |
| Financial assets held for trading – Private debt securities *(Note 11)* | 2,091,292 | 1,972,631 |
| *Financial assets with variable interest rates:* | | |
| Held to maturity investments – Government bonds *(Note 11)* | 89,590,740 | 85,608,329 |
| Available for sale financial assets – Government bonds *(Note 11)* | 11,047,336 | 22,283,652 |
| Financial assets held for trading – Private debt securities *(Note 11)* | -- | 11,609,645 |
| Financial assets held for trading – Government bonds *(Note 11)* | 903,870 | 8,442,412 |
| Available for sale financial assets – Private debt securities *(Note 11)* | 10,834,804 | 11,036,619 |

(*) Demand deposits amounting to TL 17,735,987 are not included (31 December 2011: TL 19,220,696).

*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 for the periods ended 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, The table below demonstrating the effect of changes in interest rates on statement of income and equity excludes tax effects on related loss or income.

(CURRENCY: TURKISH LIRA (TL))

| | Profit or loss | | Equity (*) | |
|---|---|---|---|---|
| 31 December 2012 | 100 bp increase | 100 bp decrease | 100 bp increase | 100 bp decrease |
| Financial assets held for trading | (44,941) | 46,726 | (192,254) | 201,659 |
| Available for sale financial assets | -- | -- | (1,246,995) | 1,290,274 |
| Total, net | (44,941) | 46,726 | (1,439,249) | 1,491,933 |

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

| | Profit or loss | | Equity (*) | |
|---|---|---|---|---|
| 31 December 2011 | 100 bp increase | 100 bp decrease | 100 bp increase | 100 bp decrease |
| Financial assets held for trading | (378,728) | 398,331 | (378,728) | 398,331 |
| Available for sale financial assets | -- | -- | (1,176,417) | 1,244,279 |
| Total, net | (378,728) | 398,331 | (1,555,145) | 1,642,610 |

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

*Fair value information*

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

The Company has classified its financial assets as held for trading, available for sale or held to maturity. As at the reporting date, available for sale financial assets and financial assets held for trading are measured at their fair values based on their quoted prices or fair value information obtained from brokers in the accompanying consolidated financial statements. Equity shares not traded in active markets are measured at cost less impairment losses if any. 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 2011: TL 86,251,546) as at 31 December 2012.

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

*Fair value sensitivity of the equities*

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

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

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | Profit or loss | Equity (*) | Profit or loss | Equity (*) |
| Financial assets held for trading | (444,938) | (444,938) | (1,531,254) | (1,531,254) |
| Available for sale financial assets | -- | (12,191,044) | -- | (6,040,983) |
| Total, net | (444,938) | (12,635,982) | (1,531,254) | (7,572,237) |

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

(CURRENCY: TURKISH LIRA (TL))

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

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

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

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

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

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

| | 31 December 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| *Financial assets:* | | | | |
| Financial assets held for trading *(Note 11)* | 47,593,247 | -- | -- | 47,593,247 |
| Available for sale financial assets (*) *(Note 11)* | 214,197,000 | -- | 3,272,355 | 217,469,355 |
| Total financial assets | 261,790,247 | -- | 3,272,355 | 265,062,602 |

| | 31 December 2011 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| *Financial assets:* | | | | |
| Financial assets held for trading *(Note 11)* | 91,460,928 | -- | -- | 91,460,928 |
| Available for sale financial assets (*) *(Note 11)* | 154,862,534 | -- | 3,222,539 | 158,085,073 |
| Total financial assets | 246,323,462 | -- | 3,222,539 | 249,546,001 |

(*) As at 31 December 2012, securities that are not publicly traded and the determination of fair values could not be obtained reliably amounting to TL 768,950 have been measured at cost (31 December 2011: TL 748,925).

(CURRENCY: TURKISH LIRA (TL))

Gains and losses from financial assets

| *Gains and losses recognized in the statement of income:* | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Interest income from bank deposits | 74,914,513 | 52,000,485 |
| Foreign exchange gains | 11,312,773 | 29,252,952 |
| Income from investments in associates | 16,190,415 | 12,584,160 |
| Income from debt securities classified as held to maturity financial investments | 9,266,300 | 11,264,781 |
| Income from equity shares classified as available-for-sale financial assets | 17,925,904 | 10,241,930 |
| Income from equity shares classified as trading financial assets | 5,375,164 | 7,889,378 |
| Income from debt securities classified as available-for-sale financial assets | 10,771,099 | 7,580,732 |
| Income from debt securities classified as held for trading financial assets | 1,679,133 | 7,509,633 |
| Income from derivative transactions | 293,358 | 2,484,025 |
| Income from investment funds | 12,098,350 | 1,531,752 |
| Other | 1,240,016 | 1,046,890 |
| Investment income | 161,067,025 | 143,386,718 |
| | | |
| Loss from valuation of financial assets | (4,837,314) | (19,967,729) |
| Foreign exchange losses | (16,217,606) | (15,152,414) |
| Loss from derivative transactions | (311,150) | (9,928,921) |
| Loss from disposal of financial assets | (5,218,236) | (9,118,734) |
| Investment expenses – including interest | (195,000) | -- |
| Investment expenses | (26,779,306) | (54,167,798) |
| | | |
| Financial gains and losses recognized in the statement of income, net | 134,287,719 | 89,218,920 |

| *Financial gains and losses recognized in equity:* | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Fair value changes in investments in associates *(Note 15)* | 11,325,426 | (8,742,117) |
| Net gains transferred from statement of equity to the statement of income on disposal of available for sale financial assets *(Note 15)* | (996,384) | (8,961) |
| Fair value changes in available-for-sale financial assets *(Note 15)* | 28,614,298 | (24,108,057) |
| Gains and losses recognized in equity, net | 38,943,340 | (32,859,135) |

### 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 611,548,983 as at 31 December 2012. As at 31 December 2012, the capital amount of the Company presented in the consolidated financial statements are above the minimum capital requirement amounts calculated according to the communiqué.

## 5 Segment reporting

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

### Business segment

A business segment reporting of the Company is presented in accordance with TFRS 8 – *Operating Segments* standard in this section.

### Insurance on Fire and Natural Disaster

Insurance on fire and natural disasters covers material damages occurred due to fire, lightening, explosion or smoke, steam and temperature resulted from fire, lightning and explosion up to insurance policy limits.

### Motor Third Party Liability Insurance

According to the Motorway Traffic Code numbered 2918, Motor Third Party Liability Insurance is covers vehicle owner's legal liability for all bodily damages to third persons and financial damages to other vehicles.

Damages caused by the trailer or semi-trailers (included light trailers) or the vehicles pulled is covered by the insurance of the trailer. However, the trailers used for transportation of people should be included in an additional liability insurance in order to obtain coverage.

In order to reduce and prevent the damage in the accident happened, reasonable and necessary expenses of the policyholder is compensated by the Company. This insurance also covers unfair claims against the policyholders.

### Motor Vehicles

Insurance on motor vehicles covers the following dangers related with vehicles. It is possible to widen policy scope for accessories or audio, display and communication devices which are not included in standard version of the vehicle by specifying on the insurance policy.

- Accident with the motorized or non-motorized vehicles which used in high-ways,
- Crash with fixed or moving items without desire of the driver or accidents due to crash, capsize, fall or tumble
- The actions of third parties resulted from bad intention or mischief,
- Burn,
- Theft or attempted theft

### Health

Insurance on health compensates treatment costs of illnesses or accidental injuries during the period of insurance and, if any, daily allowances in this general framework with special conditions up to the amount written in the policy. Geographical limits of the insurance are stated in the policy.

### Geographical segment

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

(CURRENCY: TURKISH LIRA (TL))

| | Motor third party liability | Health | Motor vehicles | Fire and natural disasters | Other | Unallocated | Total |
|---|---|---|---|---|---|---|---|
| 1 January - 31 December 2012 | | | | | | | |
| 1- Earned Premiums (Net of Reinsurer Share) | 424,389,110 | 184,624,095 | 688,427,312 | 129,969,873 | 255,581,714 | -- | 1,682,992,104 |
| 1,1- Written Premiums (Net of Reinsurer Share) | 431,743,062 | 193,566,866 | 701,477,765 | 150,090,529 | 259,710,376 | -- | 1,736,588,598 |
| 1,2- Change in Reserve for Unearned Premiums (Net of Reinsurer Shares and Less the Amounts Carried Forward) | (20,199,080) | (8,942,771) | (13,050,453) | (20,120,656) | (5,906,475) | -- | (68,219,435) |
| 1,3- Change in Reserve for Unexpired Risks (Net of Reinsurer Share and Less the Amounts Carried Forward) | 12,845,128 | -- | -- | -- | 1,777,813 | -- | 14,622,941 |
| 2- Other Technical Income (Net of Reinsurer Share) | 37,886 | 145,345 | 2,252,441 | 61,329 | 175,396 | | 2,672,397 |
| 3- Accrued Salvage and Subrogation Income | 1,956,049 | (51,636) | (15,290,581) | 3,181,166 | (89,708) | | (10,294,710) |
| Technical Income (*) | 426,383,045 | 184,717,804 | 675,389,172 | 133,212,368 | 255,667,402 | -- | 1,675,369,791 |
| 1- Incurred Losses (Net of Reinsurer Share) | (395,812,681) | (136,621,822) | (594,196,282) | (90,044,275) | (150,341,265) | -- | (1,367,016,325) |
| 1,1- Claims Paid (Net of Reinsurer Share) | (310,527,054) | (156,438,549) | (583,316,213) | (81,023,795) | (112,020,951) | -- | (1,243,326,562) |
| 1,2- Change in Provisions for Outstanding Claims (Net of Reinsurer Share and Less the Amounts Carried Forward) | (85,285,627) | 19,816,727 | (10,880,069) | (9,020,480) | (38,320,314) | -- | (123,689,763) |
| 2- Change in Other Technical Reserves (Net of Reinsurer Share and Less the Amounts Carried Forward) | -- | -- | (1,698,015) | (8,239,025) | (1,701,164) | -- | (11,638,204) |
| 3- Operating Expenses | (131,080,316) | (42,429,892) | (193,141,535) | (44,932,354) | (72,938,598) | -- | (484,522,695) |
| 4- Other Technical Provisions | (3,719,563) | -- | -- | -- | (23,881) | -- | (3,743,444) |
| Technical Expense | (530,612,560) | (179,051,714) | (789,035,832) | (143,215,654) | (225,004,908) | -- | (1,866,920,668) |
| Investment Income | | | | | | 162,601,541 | 162,601,541 |
| Investment Expense (*) | | | | | | (35,219,628) | (35,219,628) |
| Other (**) | | | | | | (8,633,295) | (8,633,295) |
| Net loss before tax | | | | | | | (72,802,259) |
| Income tax | | | | | | 17,011,542 | 17,011,542 |
| Net loss | | | | | | | (55,790,717) |

(*) Investment income transferred to non-technical section from technical section amounting to TL 119,051,082 is not included.
(**) Deferred tax income amounting TL 17,011,542 is presented as income tax.

(CURRENCY: TURKISH LIRA (TL))

| | Motor third party liability | Health | Motor vehicles | Fire and natural disasters | Other | Unallocated | Total |
|---|---|---|---|---|---|---|---|
| 1 January - 31 December 2011 | | | | | | | |
| 1- Earned Premiums (Net of Reinsurer Share) | 268,857,758 | 160,421,840 | 510,003,047 | 111,768,766 | 210,332,463 | -- | 1,261,383,874 |
| 1,1- Written Premiums (Net of Reinsurer Share) | 360,664,692 | 172,966,579 | 600,603,351 | 117,288,868 | 233,125,654 | -- | 1,484,649,144 |
| 1,2- Change in Reserve for Unearned Premiums (Net of Reinsurer Shares and Less the Amounts Carried Forward) | (79,115,005) | (12,544,739) | (90,600,304) | (5,520,102) | (22,629,960) | -- | (210,410,110) |
| 1,3- Change in Reserve for Unexpired Risks (Net of Reinsurer Share and Less the Amounts Carried Forward) | (12,691,929) | -- | -- | -- | (163,231) | -- | (12,855,160) |
| 2- Other Technical Income (Net of Reinsurer Share) | 273,684 | 174,213 | 571,041 | 41,565 | 261,103 | -- | 1,321,606 |
| 3- Accrued Salvage and Subrogation Income | 2,790,237 | (17,347) | 8,160,568 | 1,865,711 | 1,124,547 | -- | 13,923,716 |
| Technical Income (*) | 271,921,679 | 160,578,706 | 518,734,656 | 113,676,042 | 211,718,113 | -- | 1,276,629,196 |
| 1- Incurred Losses (Net of Reinsurer Share) | (267,797,514) | (126,516,675) | (417,631,774) | (52,524,982) | (102,925,376) | -- | (967,396,321) |
| 1,1- Claims Paid (Net of Reinsurer Share) | (232,613,555) | (128,196,917) | (413,465,534) | (47,148,351) | (84,868,059) | -- | (906,292,416) |
| 1,2- Change in Provisions for Outstanding Claims (Net of Reinsurer Share and Less the Amounts Carried Forward) | (35,183,959) | 1,680,242 | (4,166,240) | (5,376,631) | (18,057,317) | -- | (61,103,905) |
| 2- Change in Other Technical Reserves (Net of Reinsurer Share and Less the Amounts Carried Forward) | -- | -- | (1,526,069) | (508,884) | (1,683,643) | -- | (3,718,596) |
| 3- Operating Expenses | (74,288,788) | (45,784,150) | (146,228,359) | (39,062,067) | (88,175,488) | -- | (393,538,852) |
| 4- Other Technical Provisions | (1,382,063) | | | | (17,153) | | (1,399,216) |
| Technical Expense | (343,468,365) | (172,300,825) | (565,386,202) | (92,095,933) | (192,801,660) | -- | (1,366,052,985) |
| Investment Income | | | | | | 144,863,693 | 144,863,693 |
| Investment Expense (*) | | | | | | (62,087,595) | (62,087,595) |
| Other (**) | | | | | | (1,067,442) | (1,067,442) |
| Net profit before tax | | | | | | | (2,299,290) |
| Income tax | | | | | | 6,368,048 | 6,368,048 |
| Net profit | | | | | | | (1,347,085) |

(*) Investment income transferred to non-technical section from technical section amounting to TL 79,355,436 is not included.
(**) Deferred tax income amounting TL 6,368,048 is presented as income tax.

(CURRENCY: TURKISH LIRA (TL))

## 6 Tangible assets

Movements in tangible assets in the period from 1 January to 31 December 2012 are presented below:

| | 1 January 2012 | Additions | Disposals | 31 December 2012 |
|---|---|---|---|---|
| *Cost:* | | | | |
| Investment properties *(Note 7)* | 6,982,776 | -- | -- | 6,982,776 |
| Buildings for own use | 6,352,187 | 35,542 | -- | 6,387,729 |
| Machinery and equipment | 25,657,096 | 674,299 | (62,435) | 26,268,960 |
| Furniture and fixtures | 8,977,764 | 62,083 | (8,294) | 9,031,553 |
| Vehicles | 1,340,671 | -- | (40,820) | 1,299,851 |
| 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 |
| | 57,433,128 | 1,027,032 | (284,260) | 58,175,900 |
| *Accumulated depreciation:* | | | | |
| Investment properties *(Note 7)* | 3,299,242 | 139,656 | -- | 3,438,898 |
| Buildings for own use | 2,093,813 | 127,458 | -- | 2,221,271 |
| Machinery and equipment | 17,721,482 | 3,203,656 | (16,996) | 20,908,142 |
| Furniture and fixtures | 8,172,801 | 325,742 | (3,139) | 8,495,404 |
| Motor vehicles | 553,358 | 245,462 | (34,269) | 764,551 |
| 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 |
| | 39,106,165 | 4,331,859 | (188,764) | 43,249,260 |
| Carrying amounts | 18,326,963 | | | 14,926,640 |

Movements in tangible assets in the period from 1 January to 31 December 2011 are presented below:

| | 1 January 2011 | Additions | Disposals | 31 December 2011 |
|---|---|---|---|---|
| *Cost:* | | | | |
| Investment properties *(Note 7)* | 6,982,776 | -- | -- | 6,982,776 |
| Buildings for own use | 6,419,649 | -- | (67,462) | 6,352,187 |
| Machinery and equipment | 24,381,873 | 1,296,468 | (21,245) | 25,657,096 |
| Furniture and fixtures | 8,746,983 | 230,781 | -- | 8,977,764 |
| Vehicles | 1,041,865 | 453,624 | (154,818) | 1,340,671 |
| Other tangible assets (including leasehold improvements) | 3,533,374 | 250,195 | -- | 3,783,569 |
| Leased tangible assets | 4,339,065 | -- | -- | 4,339,065 |
| | 55,445,585 | 2,231,068 | (243,525) | 57,433,128 |
| *Accumulated depreciation:* | | | | |
| Investment properties *(Note 7)* | 3,159,587 | 139,655 | -- | 3,299,242 |
| Buildings for own use | 2,003,330 | 127,044 | (36,561) | 2,093,813 |
| Machinery and equipment | 14,485,613 | 3,244,378 | (8,509) | 17,721,482 |
| Furniture and fixtures | 7,744,418 | 428,383 | -- | 8,172,801 |
| Motor vehicles | 475,322 | 221,867 | (143,831) | 553,358 |
| 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 |
| | 34,705,683 | 4,589,383 | (188,901) | 39,106,165 |
| Carrying amounts | 20,739,902 | | | 18,326,963 |

(CURRENCY: TURKISH LIRA (TL))

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

There is not any mortgage over tangible assets of the Company as at 31 December 2012 and 31 December 2011.

## 7 Investments in associate

The Company's net book value of TL 3,543,878 (31 December 2011: TL 3,683,534) as shown in the valuation work performed by the fair value of investment properties is amount of TL 37,505,463.The fair value of real estate carried out by an independent valuation firm is authorized by the Capital Markets Board of Turkey. Rental income on investment properties were obtained TL 1,509,568 (31 December 2011: TL 1,286,113).

## 8 Intangible assets

Movements in intangible assets in the period from 1 January to 31 December 2012 are presented below:

| | 1 January 2012 | Additions | Disposals | 31 December 2012 |
|---|---|---|---|---|
| *Cost:* | | | | |
| Goodwill | 16,250,000 | -- | -- | 16,250,000 |
| Advances given for intangible assets | 14,336,428 | 17,380,915 | -- | 31,717,343 |
| Other intangible assets | 16,560,910 | 5,083,052 | -- | 21,643,962 |
| | 47,147,338 | 22,463,967 | -- | 69,611,305 |
| *Accumulated amortization:* | | | | |
| Other intangible assets | 11,017,137 | 4,108,463 | -- | 15,125,600 |
| | 11,017,137 | 4,108,463 | -- | 15,125,600 |
| Carrying amounts | 36,130,201 | | | 54,485,705 |

Movements in intangible assets in the period from 1 January to 31 December 2011 are presented below:

| | 1 January 2011 | Additions | Disposals | 31 December 2011 |
|---|---|---|---|---|
| *Cost:* | | | | |
| Goodwill | 16,250,000 | -- | -- | 16,250,000 |
| Advances given for intangible assets | 5,691,886 | 8,644,542 | -- | 14,336,428 |
| Other intangible assets | 11,709,734 | 4,851,176 | -- | 16,560,910 |
| | 33,651,620 | 13,495,718 | -- | 47,147,338 |
| *Accumulated amortization:* | | | | |
| Other intangible assets | 7,686,723 | 3,330,414 | -- | 11,017,137 |
| | 7,686,723 | 3,330,414 | -- | 11,017,137 |
| Carrying amounts | 25,964,897 | | | 36,130,201 |

## 9 Investments in associates

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | Carrying value | Participation rate | Carrying value | Participation rate |
| Anadolu Hayat Emeklilik A.Ş. | 105,897,121 | 20.0% | 86,667,515 | 20.0% |
| Investments in associates, net | 105,897,121 | | 86,667,515 | |
| Total financial assets *(Note 4.2)* | 105,897,121 | | 86,667,515 | |

| Name | Total assets | Shareholders' equity | Retained earnings | Profit for the period | Audited or not | Period |
|---|---|---|---|---|---|---|
| Anadolu Hayat Emeklilik A.Ş. (consolidated financial statements) | 7,226,896,280 | 529,485,605 | 9,400,159 | 80,952,075 | Audited | 31 December 2012 |

TL 16,190,415 of income is obtained from associates through equity accounted consolidation method (31 December 2011: TL 12,584,160).

(CURRENCY: TURKISH LIRA (TL))

## 10 Reinsurance assets and liabilities

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

| Reinsurance assets | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Reserve for unearned premiums, ceded *(Note 17)* | 218,883,986 | 203,119,196 |
| Provision for outstanding claims, ceded *(Note 4.2), (Note 17)* | 89,440,431 | 58,571,323 |
| Commission income accrual from reinsurers *(Note 12)* | 2,365,311 | 6,063,976 |
| Cash deposited to reinsurance companies *(Note 12)* | 3,906,064 | 3,059,613 |
| Reinsurers share in the provision for subrogation and salvage receivables | 3,631,187 | 336,917 |
| Total | 318,226,979 | 271,151,025 |

There is no impairment losses recognised for reinsurance assets.

| Reinsurance liabilities | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Payables to the reinsurers related to premiums written *(Note 19)* | 106,959,068 | 110,441,826 |
| Deferred commission income *(Note 19)* | 34,980,352 | 33,579,034 |
| Commission payables to the reinsurers related to written premiums *(Note 23)* | 6,451,900 | 4,698,961 |
| Cash deposited by reinsurance companies *(Note 19)* | 3,161,917 | 1,814,418 |
| Total | 106,959,068 | 150,534,239 |

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

| | 31 December 2012 | 30 December 2011 |
|---|---|---|
| Premiums ceded during the period *(Note 17)* | (454,182,023) | (417,467,199) |
| Reserve for unearned premiums, ceded at the beginning of the period *(Note 17)* | (203,119,196) | (137,562,021) |
| Reserve for unearned premiums, ceded at the end of the period *(Note 17)* | 218,883,986 | 203,119,196 |
| Premiums earned, ceded *(Note 17)* | (438,417,233) | (351,910,024) |
| | | |
| Claims paid, ceded during the period *(Note 17)* | 128,528,002 | 111,970,656 |
| Provision for outstanding claims, ceded at the beginning of the period *(Note 17)* | (58,571,323) | (75,717,660) |
| Provision for outstanding claims, ceded at the end of the period *(Note 17)* | 89,440,431 | 58,571,323 |
| Claims incurred, ceded *(Note 17)* | 159,397,110 | 94,824,319 |
| | | |
| Commission income accrued from reinsurers during the period *(Note 32)* | 61,914,124 | 65,450,568 |
| Deferred commission income at the beginning of the period *(Note 19)* | 33,579,034 | 22,304,401 |
| Deferred commission income at the end of the period *(Note 19)* | (34,980,352) | (33,579,034) |
| Commission income earned from reinsurers *(Note 32)* | 60,512,806 | 54,175,935 |
| | | |
| Commission income accrual from reinsurers | 2,365,311 | 6,063,976 |
| | | |
| Total, net | (216,142,006) | (196,845,794) |

(CURRENCY: TURKISH LIRA (TL))

## 11 Financial assets

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Available for sale financial assets | 224,035,917 | 164,631,610 |
| Held to maturity financial assets | 89,590,740 | 91,460,928 |
| Financial assets held for trading | 47,593,247 | 85,608,329 |
| Impairment loss on available for sale financial assets | (5,797,612) | (5,797,612) |
| Total | 355,422,292 | 335,903,255 |

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

| | 31 December 2012 | | | |
|---|---|---|---|---|
| | Face Value | Cost | Fair Value | Carrying Value |
| *Debt instruments:* | | | | |
| Government bonds - TL | 39,000,679 | 40,021,561 | 40,546,955 | 40,546,955 |
| Private sector bonds - TL | 52,072,198 | 49,014,264 | 51,739,602 | 51,739,602 |
| *Issued by İş Bankası (Note 45)* | *49,339,436* | *46,438,457* | *49,009,793* | *49,009,793* |
| *Others* | *2,732,762* | *2,575,807* | *2,729,809* | *2,729,809* |
| | 91,072,877 | 89,035,825 | 92,286,557 | 92,286,557 |
| *Other non-fixed income financial assets:* | | | | |
| Equity shares | 50,926,584 | 105,818,808 | 131,749,360 | 131,749,360 |
| Impairment loss on equity shares | -- | -- | (5,797,612) | (5,797,612) |
| | 50,926,584 | 105,818,808 | 125,951,748 | 125,951,748 |
| Total available for sale financial assets *(Note 4.2)* | 141,999,461 | 194,854,633 | 218,238,305 | 218,238,305 |

| | 31 December 2011 | | | |
|---|---|---|---|---|
| | Face Value | Cost | Fair Value | Carrying Value |
| *Debt instruments:* | | | | |
| Government bonds - TL | 43,586,949 | 42,401,923 | 42,324,256 | 42,324,256 |
| Private sector bonds - TL | 53,722,338 | 49,677,627 | 52,128,450 | 52,128,450 |
| *Issued by İş Bankası (Note 45)* | *52,511,238* | *48,466,107* | *50,886,817* | *50,886,817* |
| *Others* | *1,211,100* | *1,211,520* | *1,241,633* | *1,241,633* |
| | 97,309,287 | 92,079,550 | 94,452,706 | 94,452,706 |
| *Other non-fixed income financial assets:* | | | | |
| Equity shares | 46,468,053 | 71,529,049 | 70,178,904 | 70,178,904 |
| Impairment loss on equity shares | -- | -- | (5,797,612) | (5,797,612) |
| | 46,468,053 | 71,529,049 | 64,381,292 | 64,381,292 |
| Total available for sale financial assets *(Note 4.2)* | 143,777,340 | 163,608,599 | 158,833,998 | 158,833,998 |

(CURRENCY: TURKISH LIRA (TL))

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

| | 31 December 2012 | | | |
|---|---|---|---|---|
| | Face Value | Cost | Fair Value | Carrying Value |
| *Debt instruments:* | | | | |
| Private sector bonds - TL | 2,000,000 | 2,000,000 | 2,091,292 | 2,091,292 |
| Government bonds - TL | 900,000 | 912,696 | 903,870 | 903,870 |
| Reverse repo receivables | | 5,541,506 | 5,542,173 | 5,542,173 |
| | | 8,454,202 | 8,537,335 | 8,537,335 |
| *Other non-fixed income financial assets:* | | | | |
| Investment funds | 1,020,695,131 | 25,813,287 | 34,606,532 | 34,606,532 |
| *Founded by Iş Bankası (Note 45)* | 120,605,000 | 9,009,287 | 13,831,486 | 13,831,486 |
| *Founded by Iş Portföy Yönetimi A.Ş.(Note 45)* | 900,000,000 | 9,000,000 | 9,903,600 | 9,903,600 |
| *Founded by Işbank GmbH (Note 45)* | 90,131 | 7,804,000 | 10,871,446 | 10,871,446 |
| Equity shares | 2,370,281 | 4,825,566 | 4,449,380 | 4,449,380 |
| | | 30,638,853 | 39,055,912 | 39,055,912 |
| Total financial assets held for trading *(Note 4,2)* | | 39,093,055 | 47,593,247 | 47,593,247 |

| | 31 December 2011 | | | |
|---|---|---|---|---|
| | Face Value | Cost | Fair Value | Carrying Value |
| *Debt instruments:* | | | | |
| Private sector bonds - TL | 13,435,696 | 13,445,323 | 13,582,276 | 13,582,276 |
| Government bonds - TL | 8,612,608 | 8,500,000 | 8,442,412 | 8,442,412 |
| Reverse repo receivables | 2,565,151 | 2,565,151 | 2,567,331 | 2,567,331 |
| | | 24,510,474 | 24,592,019 | 24,592,019 |
| *Other non-fixed income financial assets:* | | | | |
| Investment funds | 1,538,379,205 | 42,739,909 | 51,556,375 | 51,556,375 |
| *Founded by Iş Bankası (Note 45)* | *638,289,074* | *25,935,909* | *35,396,270* | *35,396,270* |
| *Founded by Iş Portföy Yönetimi A.Ş.(Note 45)* | *900,000,000* | *9,000,000* | *8,909,100* | *8,909,100* |
| *Founded by Işbank GmbH (Note 45)* | *90,131* | *7,804,000* | *7,251,005* | *7,251,005* |
| Equity shares | 4,016,317 | 20,280,275 | 15,312,534 | 15,312,534 |
| | | 63,020,184 | 66,868,909 | 66,868,909 |
| Total financial assets held for trading *(Note 4.2)* | | 87,530,658 | 91,460,928 | 91,460,928 |

(CURRENCY: TURKISH LIRA (TL))

As at 31 December 2012 and 31 December 2011, the Company'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 |

All debt instruments presented above are publicly traded in active markets. As at 31 December 2012, equity shares classified as available for sale financial assets with a carrying amount of TL 4,041,304 are not publicly traded (31 December 2011: TL 3,971,463).

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

There is no financial asset that is overdue but not impaired among the Company's financial investments portfolio. As at 31 December 2012, TL 5,797,612 of impairment loss is recognised for equity shares classified as available for sale in the accompanying consolidated financial statements (31 December 2011: TL 5,797,612).

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

| Year | Change in value increase/ (decrease) | Total increase in value |
|---|---|---|
| 2012 | 38,943,340 | 34,628,767 |
| 2011 | (32,859,135) | (4,314,573) |
| 2010 | 12,118,077 | 28,544,562 |

Movements of the financial assets during the period are presented below:

| | 31 December 2012 | | | |
|---|---|---|---|---|
| | (*) Trading | Available for sale | Held to maturity | Total |
| Balance at the beginning of the period | 88,893,597 | 158,833,998 | 85,608,329 | 333,335,924 |
| Acquisitions during the period | -- | 537,072,037 | -- | 537,072,037 |
| Disposals (sale and redemption) | (51,285,728) | (509,102,173) | (846,956) | (561,234,857) |
| Change in the fair value of financial assets *(Note 15)* | 4,432,039 | 30,943,758 | -- | 35,375,797 |
| Change in amortized cost of the financial assets | -- | (2,765,472) | 4,829,367 | 2,063,895 |
| Bonus shares acquired | 11,166 | 3,256,157 | -- | 3,267,323 |
| Balance at the end of the period | 42,051,074 | 218,238,305 | 89,590,740 | 349,880,119 |

(*) Amount of reverse repo to TL 5,542,173 (31 December 2011: TL 2,567,331) are excluded.

(CURRENCY: TURKISH LIRA (TL))

| | 31 December 2011 | | | |
|---|---|---|---|---|
| | Trading | Available for sale | Held to maturity | Total |
| Balance at the beginning of the period | 242,895,603 | 66,054,619 | 130,409,487 | 439,359,709 |
| Acquisitions during the period | 186,093,146 | 360,897,089 | 19,999,997 | 566,990,232 |
| Disposals (sale and redemption) | (335,720,499) | (253,868,096) | (66,901,903) | (656,490,498) |
| Change in the fair value of financial assets *(Note 15)* | (4,499,394) | (24,697,840) | -- | (29,197,234) |
| Change in amortized cost of the financial assets | -- | 2,373,169 | 2,100,748 | 4,473,917 |
| Bonus shares acquired | 124,741 | 8,075,057 | -- | 8,199,798 |
| Balance at the end of the period | 88,893,597 | 158,833,998 | 85,608,329 | 333,335,924 |

(*) Amount of reverse repo to TL 2,567,331 (31 December 2010: TL 660,752) are excluded.

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 |

## 12 Loans and receivables

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Receivables from main operations *(Note 4.2)* | 646,879,957 | 553,528,183 |
| Other receivables *(Note 4.2)* | 2,195,501 | 1,869,978 |
| Income prepaid expenses *(Note 4.2), (Note 10)* | 2,365,311 | 6,063,976 |
| Other current assets *(Note 4.2)* | 629,359 | 1,029,887 |
| Receivables from related parties *(Note 4.2)* | 1,445,693 | 90,230 |
| Total | 653,515,821 | 562,582,254 |
| | | |
| Short-term receivables | 653,515,821 | 562,582,254 |
| Long and medium-term receivables | -- | -- |
| Total | 653,515,821 | 562,582,254 |

(CURRENCY: TURKISH LIRA (TL))

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Receivables from agencies, brokers and intermediaries | 552,722,660 | 445,019,795 |
| Salvage and subrogation receivables | 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 |
| Receivables from reinsurance operations | 48,944,928 | 43,504,762 |
| Cash deposited to insurance and reinsurance companies *(Note 4.2), (Note 10)* | 3,906,064 | 3,059,613 |
| Provisions for receivables from insurance operations – subrogation receivables | (9,137,211) | (4,649,888) |
| Doubtful receivables from insurance operations – subrogation receivables | 63,303,500 | 59,674,250 |
| Provisions for doubtful receivables from insurance operations – subrogation receivables *(Note 4.2)* | (63,303,500) | (59,674,250) |
| Doubtful receivables from main operations – premium receivables | 24,693,112 | 22,777,314 |
| Provisions for doubtful receivables from main operations – premium receivables *(Note 4.2)* | (24,693,112) | (22,777,314) |
| Receivables from main operations | 646,879,957 | 553,528,183 |

As at 31 December 2012 and 31 December 2011, the details of mortgages and other guarantees for the Company's receivables are presented below:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Mortgage notes | 73,620,987 | 75,497,087 |
| Letters of guarantees | 60,373,577 | 53,762,931 |
| Other guarantees | 8,583,108 | 8,458,660 |
| Government bonds and treasury bills | 3,083,233 | 3,055,221 |
| Total | 145,660,905 | 140,773,899 |

### Provisions for overdue receivables and receivables not due yet

a) Receivables under legal or administrative follow up (due): TL 24,693,112 (31 December 2011: TL 22,777,314).

b) Provision for subrogation receivables under legal or administrative follow up: TL 72,440,711 (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 instruments

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

## 14 Cash and cash equivalents

As at 31 December 2012 and 31 December 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 | 59,000 | 61,089 | 61,089 | 66,524 |
| Received cheques | -- | -- | -- | -- |
| Bank deposits | 810,515,425 | 691,318,942 | 691,318,942 | 486,915,108 |
| 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 | 968,521,375 | 911,631,717 | 911,631,717 | 610,044,949 |
| Bank deposits – blocked (*) *(Note 17)* | (125,966,707) | (130,702,765) | (130,702,765) | (81,634,906) |
| Time deposits with maturities longer than 3 months | (315,826,956) | (223,552,501) | (223,552,501) | -- |
| Interest accruals on banks deposits | (2,299,223) | (3,944,703) | (3,944,703) | (2,413,533) |
| Cash and cash equivalents in the statement of cash flows | 524,428,489 | 553,431,748 | 553,431,748 | 525,996,510 |

(*) As at 31 December 2012 and 31 December 2011 cash collateral kept in favour of the Turkish Treasury as a guarantee for the insurance activities.

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Foreign currency denominated bank deposits | | |
| - time deposits | 47,396,316 | 33,324,964 |
| - demand deposits | 14,730,781 | 10,350,842 |
| Bank deposits in Turkish Lira | | |
| - time deposits | 745,383,122 | 638,773,282 |
| - demand deposits | 3,005,206 | 8,869,854 |
| Bank deposits | 810,515,425 | 691,318,942 |

## 15 Equity

### Paid in capital

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

İş Bankası sold its share in the capital of the Company with a nominal value of TL 177,650,110 to another İş Bankası group company; namely Milli Reasürans T.A.Ş with a share price of TL 248,710,154 as at 30 September 2010. After the sale, İş Bankası does not have direct share in the Company and share of Milli Reasürans T.A.Ş, increased to 57.31% amounting to TL 286,550,106,

The Company does not increase its share capital in the current period.

As at 31 December 2012, the issued share capital of the Company is TL 500,000,000 (31 December 2011: TL 500,000,000) and the share capital of the Company consists of 50,000,000,000 (31 December 2011: 50,000,000,000 shares) issued shares with TL 0.01 nominal value each. The Company's share capital is divided into group A and group B shares. The share capital is represented by 150 Group A shares of TL 0.01 each and Group B shares of the remaining amount. The only privilege of Group A shares is about voting right at General Assembly meetings as Group A shares have 10 voting rights whereas Group B shares have 1 voting right.

(CURRENCY: TURKISH LIRA (TL))

### 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 in 2010 amounting to TL 8,081,516 and in 2011 amounting to TL 80,025 is classified as other capital reserves.

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Other capital reserves at the beginning of the period | 8,081,516 | - |
| Transfer from profit | 80,025 | 8,081,516 |
| Other capital reserves at the end of the period | 8,161,541 | 8,081,516 |

### 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 | 30,438,674 | 28,965,434 |
| Transfer from profit | 199,437 | 1,473,240 |
| Legal reserves at the end of the period | 30,638,111 | 30,438,674 |

### Extraordinary reserves

The movements of extraordinary reserves are presented below:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Extraordinary reserves at the beginning of the period | 14,712,995 | -- |
| Transfer from profit | 3,410,366 | 14,712,995 |
| Extraordinary reserves at the end of the period | 18,123,361 | 14,712,995 |

### Statutory reserves

The movements of statutory reserves are presented below:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Statutory reserves at the beginning of the period | 6,614,152 | 4,110,050 |
| Transfer from profit | 378,930 | 2,504,102 |
| Statutory reserves at the end of the period | 6,993,082 | 6,614,152 |

(CURRENCY: TURKISH LIRA (TL))

### Valuation of financial assets

Movement of fair value reserves of available for sale financial assets and associates are presented below:

| | 31 December 2012 | | | 31 December 2011 | | |
|---|---|---|---|---|---|---|
| | Available for sale financial assets | Associates | Total | Available for sale financial assets | Associates | Total |
| Fair value reserves at the beginning of the period | (2,350,131) | 99,368,132 | 97,018,001 | 21,766,887 | 211,968,116 | 233,735,003 |
| Change in the fair value | 30,943,758 | 87,600,000 | 118,543,758 | (24,697,840) | (112,599,984) | (137,297,824) |
| Net gains transferred to the statement of income | (996,384) | -- | (996,384) | (8,961) | -- | (8,961) |
| Deferred tax effect | (2,329,460) | -- | (2,329,460) | 589,783 | -- | 589,783 |
| Fair value reserves at the end of the period | 25,267,783 | 186,968,132 | 212,235,915 | (2,350,131) | 99,368,132 | 97,018,001 |

### 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 5$^{th}$ Temporary Article of the Insurance Law. The companies had to transfer total amount of provisions, including earthquake provisions reserved as at 31 December 2006 and related gains obtained from investment of these amounts, to the account called as "549.01 – transferred earthquake provisions" which would be opened as at 1 September 2007 within Uniform Chart of Account and the reserves amount should not be subject to dividend distribution or should not be transferred to other accounts.

Accordingly, the Company initially transferred total provisions amounting to TL 96,036,157, including earthquake provisions reserved as at 31 December 2006 and related gains obtained from investment of this amount, to the reserve accounts under equity, TL 51,846,111 of this amount is used for capital increase in 2010 and the remaining amount is TL 44,190,046.

## 16 Other reserves and equity component of DPF

As at 31 December 2012 and 31 December 2011, change in fair values of available-for-sale financial assets which is presented as "valuation of financial assets" and earthquake provisions provided in the previous years presented under "other profit reserves" are explained in detail in Note 15 – *Equity* above. As at 31 December 2012 and 31 December 2011, the Company 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 Company. Estimation of the insurance contract liabilities contains several ambiguities by nature. The Company makes calculation of the related insurance technical provisions accordance with the Insurance Legislation and reflects them into financial statements as mentioned in Note 2 – *Summary of significant accounting policies*.

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Reserve for unearned premiums, gross | 1,104,218,773 | 1,014,113,766 |
| Reserve for unearned premiums, ceded *(Note 10)* | (218,883,986) | (203,119,196) |
| Reserve for unearned premiums, SSI share | (20,200,015) | (14,079,233) |
| Reserves for unearned premiums, net | 865,134,772 | 796,915,337 |
| Provision for outstanding claims, gross | 578,790,894 | 424,232,023 |
| Provision for outstanding claims, ceded *(Note 10)* | (89,440,431) | (58,571,323) |
| Provision for outstanding claims, net | 489,350,463 | 365,660,700 |
| Reserve for unexpired risks, net | 4,097,523 | 18,720,464 |
| Equalization provision, net (*) | 32,157,249 | 20,519,045 |
| General provision, net | 7,702,761 | 7,702,761 |
| Other provisions | -- | 5,413,605 |
| Other technical provisions, net | 39,860,010 | 33,635,411 |
| Total technical provisions, net | 1,398,442,768 | 1,214,931,912 |
| Short-term | 1,358,582,758 | 1,181,296,501 |
| Medium and long-term | 39,860,010 | 33,635,411 |
| Total technical provisions, net | 1,398,442,768 | 1,214,931,912 |

(*) Net losses (after reinsurance) resulted from earthquake occurred in Van amounting to TL 577,675 (31 December 2011: TL 5,824,550) are decreased from prior periods' equalization provision based on the regulation.

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

| | 31 December 2012 | | |
|---|---|---|---|
| Reserve for unearned premiums | Gross | Ceded | Net |
| Reserve for unearned premiums at the beginning of the period | 1,014,113,766 | (203,119,196) | 810,994,570 |
| Premiums written during the period | 2,234,633,499 | (454,182,023) | 1,780,451,476 |
| Premiums earned during the period | (2,144,528,492) | 438,417,233 | (1,706,111,259) |
| Reserve for unearned premiums at the end of the period | 1,104,218,773 | (218,883,986) | 885,334,787 |

| | 31 December 2011 | | |
|---|---|---|---|
| Reserve for unearned premiums | Gross | Ceded | Net |
| Reserve for unearned premiums at the beginning of the period | 724,067,248 | (137,562,021) | 586,505,227 |
| Premiums written during the period | 1,926,090,486 | (417,467,199) | 1,508,623,287 |
| Premiums earned during the period | (1,636,043,968) | 351,910,024 | (1,284,133,944) |
| Reserve for unearned premiums at the end of the period | 1,014,113,766 | (203,119,196) | 810,994,570 |

(CURRENCY: TURKISH LIRA (TL))

| | 31 December 2012 | | |
|---|---|---|---|
| Provision for outstanding claims | Gross | Ceded | Net |
| Provision for outstanding claims at the beginning of the period | 424,232,023 | (58,571,323) | 365,660,700 |
| Claims reported during the period and changes in the estimations of provisions for outstanding claims provided at the beginning of the period | 1,526,413,435 | (159,397,110) | 1,367,016,325 |
| Claims paid during the period | (1,371,854,564) | 128,528,002 | (1,243,326,562) |
| Provision for outstanding claims at the end of the period | 578,790,894 | (89,440,431) | 489,350,463 |

| | 31 December 2011 | | |
|---|---|---|---|
| Provision for outstanding claims | Gross | Ceded | Net |
| Provision for outstanding claims at the beginning of the period | 380,274,455 | (75,717,660) | 304,556,795 |
| Claims reported during the period and changes in the estimations of provisions for outstanding claims provided at the beginning of the period | 1,062,220,640 | (94,824,319) | 967,396,321 |
| Claims paid during the period | (1,018,263,072) | 111,970,656 | (906,292,416) |
| Provision for outstanding claims at the end of the period | 424,232,023 | (58,571,323) | 365,660,700 |

### Claim development tables

The basic assumption used in the estimation of provisions for outstanding claims is the Company's past experience on claim developments. Judgment is used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. The sensitivity of certain assumptions like legislative change, uncertainty in the estimation process, etc, is not possible to quantify. Furthermore, because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claim provisions are not known with certainty at the reporting date. Consequently, the ultimate liabilities will vary as a result of subsequent developments. Differences resulting from reassessment of the ultimate liabilities are recognized in subsequent financial statements.

Development of insurance liabilities enables to measure the performance of the Company in estimation of its ultimate claim losses. The amounts presented on the top of the below tables show the changes in estimations of the Company for the claims in subsequent years after claim years. The amounts presented on the below of the below tables give the reconciliation of total liabilities with provision for outstanding claims presented in the accompanying financial statements.

| | | | 31 December 2012 | | | |
|---|---|---|---|---|---|---|
| Claim year | 2008 | 2009 | 2010 | 2011 | 2012 | Total |
| Claim year | 751,438,819 | 891,236,728 | 842,056,342 | 1,053,363,672 | 1,462,420,895 | 5,000,516,456 |
| 1 year later | 723,070,057 | 896,753,774 | 852,281,479 | 1,120,458,560 | -- | 3,592,563,870 |
| 2 years later | 712,927,015 | 910,229,039 | 862,752,798 | -- | -- | 2,485,908,852 |
| 3 years later | 726,235,128 | 919,855,305 | -- | -- | -- | 1,646,090,433 |
| 4 years later | 731,881,665 | -- | -- | -- | -- | 731,881,665 |
| Current estimate of cumulative claims | 731,881,665 | 919,855,305 | 862,752,798 | 1,120,458,560 | 1,462,420,895 | 5,097,369,223 |
| Cumulative payments to date | 703,886,217 | 882,846,914 | 825,020,800 | 1,056,226,922 | 1,098,367,086 | 4,566,347,939 |
| Liability recognized in the financial statements | 27,995,448 | 37,008,392 | 37,731,999 | 64,231,638 | 364,053,809 | 531,021,286 |
| Liability recognized before 2007 | -- | -- | -- | -- | 47,769,608 | 47,769,608 |
| Total gross outstanding claims provision presented in the financial statements at the end of the period | | | | | | 578,790,894 |

(CURRENCY: TURKISH LIRA (TL))

| | 31 December 2011 | | | | | |
|---|---|---|---|---|---|---|
| Claim year | 2007 | 2008 | 2009 | 2010 | 2011 | Total |
| Claim year | 743,712,717 | 755,862,625 | 897,093,249 | 848,434,318 | 1,078,872,014 | 4,323,974,923 |
| 1 year later | 736,668,191 | 729,187,381 | 906,818,218 | 859,824,239 | -- | 3,232,498,029 |
| 2 years later | 735,531,809 | 720,130,539 | 920,116,900 | -- | -- | 2,375,779,248 |
| 3 years later | 738,171,462 | 733,375,064 | -- | -- | -- | 1,471,546,526 |
| 4 years later | 741,935,442 | -- | -- | -- | -- | 741,935,442 |
| Current estimate of cumulative claims | 741,935,442 | 733,375,064 | 920,116,900 | 859,824,239 | 1,078,872,014 | 4,334,123,659 |
| Cumulative payments to date | (718,799,523) | (697,772,233) | (873,447,946) | (814,217,496) | (834,000,964) | (3,938,238,162) |
| Liability recognized in the financial statements | 23,135,919 | 35,602,831 | 46,668,954 | 45,606,743 | 244,871,050 | 395,885,497 |
| Liability recognized before 2006 | -- | -- | -- | -- | 28,346,526 | 28,346,526 |
| Total gross outstanding claims provision presented in the financial statements at the end of the period | | | | | | 424,232,023 |

## Total amount of guarantee that should be placed by the Company for life and non-life branches and guarantees placed for the life and non-life branches in respect of related assets

| | 31 December 2012 | | |
|---|---|---|---|
| | 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 |

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

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

## Company's number of life insurance policies, additions, disposals during the period and the related mathematical reserves

None.

## Distribution of new life insurance policyholders in terms of numbers and gross and net premiums as individual or group during the period

None.

## Distribution of mathematical reserves for life insurance policyholders who left the Company's portfolio as individual or group during the period

None.

(CURRENCY: TURKISH LIRA (TL))

### Deferred commission expenses

The Company capitalizes commissions paid to the intermediaries related to policy production under short-term and long-term prepaid expenses. As at 31 December 2012, short-term prepaid expenses amounting to TL 162,793,013 (31 December 2011: TL 161,112,385) consist of deferred commission expenses amounting to TL 156,049,462 (31 December 2011: TL 152,210,305) and other prepaid expenses amounting to TL 6,743,551 (31 December 2010: TL 8,902,080). Long-term prepaid expenses amounting TL 564,809 (31 December 2011: TL 561,891) are composed of other prepaid expenses.

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Deferred commission expenses at the beginning of the period | 152,210,305 | 110,586,806 |
| Commissions accrued during the period *(Note 32)* | 352,774,055 | 319,140,020 |
| Commissions expensed during the period (*) | (348,934,898) | (277,516,521) |
| Deferred commission expenses at the end of the period | 156,049,462 | 152,210,305(*) |

(*) 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 recognised as commission expense amounting to TL 149,617,083 *(Note 32)* and personnel expense amounting to TL 2,593,222.

### Individual pension funds

None.

## 18 Investment contract liabilities

None.

## 19 Trade and other payables and deferred income

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Payables from main operations | 198,973,610 | 172,569,477 |
| Other payables | 61,006,748 | 43,362,055 |
| Deferred income and expense accruals *(Note 10)* | 34,980,352 | 33,579,034 |
| Taxes and funds payable and other similar obligations | 16,325,270 | 16,770,948 |
| Due to related parties *(Note 45)* | 15,494 | 15,494 |
| Total | 311,301,474 | 266,297,008 |
| | | |
| Short-term liabilities | 286,318,104 | 249,572,704 |
| Long-term liabilities | 24,983,370 | 16,724,304 |
| Total | 311,301,474 | 266,297,008 |

As at 31 December 2012, other payables amounting to TL 61,006,748 (31 December 2011: TL 43,362,055) 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 24,843,716 (31 December 2011: TL 17,271,570) and deposits and guarantees received amounting to TL 3,167,035 (31 December 2011: TL 2,517,131).

Short/long term deferred income and expense accruals are comprised of deferred commission income *(Note 10)*.

(CURRENCY: TURKISH LIRA (TL))

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Payables to reinsurance companies *(Note 10)* | 106,959,068 | 110,441,826 |
| Payables to agencies, brokers and intermediaries | 24,690,781 | 24,551,738 |
| Total payables arising from insurance operations | 131,649,849 | 134,993,564 |
| Payables arising from other operating activities | 64,161,844 | 35,761,495 |
| Cash deposited by insurance and reinsurance companies *(Note 10)* | 3,161,917 | 1,814,418 |
| Payables arising from main operations | 198,973,610 | 172,569,477 |

Corporate tax liabilities and prepaid taxes are disclosed below:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Corporate tax liabilities | -- | -- |
| Taxes paid during the period | 10,640,156 | 7,938,909 |
| Corporate tax assets, net | 10,640,156 | 7,938,909 |

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

None.

## 20 Financial liabilities

The Company has no financial liabilities as at 31 December 2012 (31 December 2011: None).

## 21 Deferred tax

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

| | 31 December 2012<br>Deferred tax assets/(liabilities) | 31 December 2011<br>Deferred tax assets/(liabilities) |
|---|---|---|
| Deferred tax effect of current period tax losses *(Note 2.18)* | 16,320,866 | 1,284,813 |
| Other provisions | 2,596,092 | 162,269 |
| Equalization provision | 4,033,537 | 2,264,959 |
| Reserve for unexpired risks | 819,505 | 3,744,093 |
| Provisions for employee termination benefits and unused vacations | 2,141,050 | 1,583,014 |
| Provision for subrogation receivables | 1,827,442 | 929,978 |
| Difference in depreciation methods on tangible and intangible assets between tax regulations and the Reporting Standards | (244,610) | (186,097) |
| Discount of receivables and payables | (198,461) | (105,655) |
| Valuation differences in financial assets | (691,628) | 1,609,012 |
| Subrogation receivables from third parties | (1,999,672) | (1,364,347) |
| Deferred tax assets, net | 24,604,121 | 9,922,039 |

As at 31 December 2012, the Company has deductible tax losses amounting TL 81,604,330 (31 December 2011: TL 6,424,063). The Company has recognised deferred tax assets on these tax losses because it is probable that future taxable profit will be available in accordance with the Company's projections.

| Expiration date | 31 December 2012 | 31 December 2011 |
|---|---|---|
| 31 December 2016 | 6,424,063 | 6,424,063 |
| 31 December 2017 | 75,180,267 | -- |
| Total | 81,604,330 | 6,424,063 |

(CURRENCY: TURKISH LIRA (TL))

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Opening balance at 1 January | 9,922,039 | 2,964,208 |
| Recognised in profit or loss *(Note 35)* | 17,011,542 | 6,368,048 |
| Recognised in equity *(Note 15)* | (2,329,460) | 589,783 |
| Deferred tax asset | 24,604,121 | 9,922,039 |

## 22 Retirement benefit obligations

The participants or beneficiaries of pension funds are required to be transferred Social Security Institution according to "Amendments to the Social Security and General Health Insurance Act Including Certain Laws and Decrees" numbered 5754 which was published in the Official Gazette dated 8 May 2008 and numbered 26870. Transfer will be completed within a period of 3 years and prescribes the extension period of the transfer as maximum of two years upon the order of the Cabinet. The related three-year transfer period has been prolonged for two years by the Cabinet decision, which was published on the Official Gazette dated 9 April 2011. Accordingly, the three-year period expired on 8 May 2011 was extended to the 8 May 2013. 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. Technical deficit rate of 9.8% shall be used in the actuarial calculation of the value in cash, and uncovered other rights and compensations of participants or beneficiaries of pension funds should be covered by the entities that transfer the funds.

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 the Company 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 the Company.

## 23 Other liabilities and provisions

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Provision for employee termination benefits | 9,856,211 | 7,193,068 |
| Provision for unused vacation pay liability | 849,038 | 722,001 |
| Total provision for other risks | 10,705,249 | 7,915,069 |

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Sliding scale commission accrual | 6,451,900 | 4,698,961 |
| Provision for agency rewards | 2,650,000 | 4,685,000 |
| Provision for personnel bonus | 4,125,000 | 3,750,000 |
| Provision for guarantee funds | 4,110,519 | 1,613,569 |
| Personnel salary increase accrual | 4,050,000 | -- |
| Deferred income and expense accruals | 21,387,419 | 14,747,530 |

Movements of provision for employee termination benefits during the period are presented below:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Provision at the beginning of the period | 7,193,068 | 5,481,127 |
| Interest cost *(Note 47)* | 552,454 | 602,924 |
| Service cost *(Note 47)* | 814,704 | 540,862 |
| Payments made during the period *(Note 47)* | (961,306) | (713,572) |
| Actuarial difference *(Note 47)* | 2,257,291 | 1,281,727 |
| Provision at the end of the period | 9,856,211 | 7,193,068 |

(CURRENCY: TURKISH LIRA (TL))

## 24 Net insurance premium

Net insurance premium revenue is presented in detailed in the accompanying consolidated statement of income.

## 25 Fee revenue

None.

## 26 Investment income

Investment income is presented in "*Note 4.2* – Financial Risk Management".

## 27 Net income accrual on financial assets

Net realized gains on financial assets are presented in "*Note 4.2* – Financial Risk Management".

## 28 Assets 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 |
|---|---|---|
| Claims paid, net off reinsurers' share | 1,243,326,562 | 906,292,416 |
| Changes in reserve for unearned premiums, net off reinsurers' share | 68,219,435 | 210,410,110 |
| Changes in provision for outstanding claims, net off reinsurers' share | 123,689,763 | 61,103,905 |
| Change in equalization provisions | 11,638,204 | 3,718,596 |
| Changes in reserve for unexpired risks, net off reinsurers' share | (14,622,941) | 12,855,160 |
| Total | 1,432,251,023 | 1,194,380,187 |

## 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

The operating expenses are disclosed as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Commission expenses *(Note 17)* | 346,341,802 | 277,516,521 |
| *Commissions to intermediaries accrued during the period (Note 17)* | *352,774,055* | *319,140,020* |
| *Change in deferred commission expenses (Note 17)* | *(6,432,253)* | *(41,623,499)* |
| Employee benefit expenses *(Note 33)* | 87,116,152 | 74,005,861 |
| Commission income from reinsurers *(Note 10)* | (60,512,806) | (54,175,935) |
| *Commission income from reinsurers accrued during the period (Note 10)* | *(61,914,124)* | *(65,450,568)* |
| *Change in deferred commission income (Note 10)* | *1,401,318* | *11,274,633* |
| Administration expenses | 56,925,891 | 51,997,786 |
| Advertising and marketing expenses | 15,280,987 | 15,926,567 |
| Outsourced benefits and services | 916,427 | 1,550,267 |
| Other expenses | 42,197,686 | 28,117,001 |
| Total | 488,266,139 | 394,938,068 |

(CURRENCY: TURKISH LIRA (TL))

## 33 Employee benefits expenses

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Wages and salaries | 62,902,862 | 52,893,048 |
| Employer's share | 11,591,110 | 9,805,616 |
| Other | 12,622,180 | 11,307,197 |
| Total | 87,116,152 | 74,005,861 |

## 34 Financial costs

Finance costs of the period are presented in "*Note 4.2* – Financial Risk Management" above. There are no finance costs classified in production costs or capitalized on tangible assets. All financial costs are directly recognised as expense in the consolidated statement of income.

## 35 Income tax

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| *Current tax expense* | | |
| Corporate tax provision | -- | -- |
| *Deferred taxes* | | |
| Origination and reversal of temporary differences | 17,011,542 | 6,368,048 |
| Total income tax expense recognised in profit or loss | 17,011,542 | 6,368,048 |

A reconciliation of tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the Company's effective income tax rate is as follows:

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| Profit before tax | (72,802,259) | Tax rate (%) | (7,715,133) | Tax rate (%) |
| Taxes on income per statutory tax rate | (14,560,452) | 20.00 | (1,543,027) | 20.00 |
| Tax exempt income | (5,14,167) | 7.10 | (4,900,635) | 63.52 |
| Non deductible expenses | 2,697,077 | (3.70) | 75,614 | (0.98) |
| Total tax income recognized in profit or loss | (17,011,542) | 23.40 | (6,368,048) | 82.54 |

## 36 Net foreign exchange gains

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

## 37 Earnings per share

Earnings per share are calculated by dividing net profit of the period to the weighted average number of shares.

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Net profit/(loss) for the period | (55,790,717) | (1,347,085) |
| Weighted average number of shares | 50,000,000,000 | 50,000,000,000 |
| Earnings/(loss) per share (TL) | (0.00111) | (0.0003) |

(CURRENCY: TURKISH LIRA (TL))

## 38 Dividends per share

Profit distribution is not performed in the current period since the Company recorded TL 1,347,085 consolidated loss in 2011.

As per the resolution of the General Assembly held on 29 March 2011, it is decided to distribute the net profit of the year amounting to TL 37,546,317 via cash amounting to TL 10,000,000 and TL 774,464 to the Company employees, and the remaining profit is distributed to the extraordinary reserves after providing first and second type of legal reserves. Accordingly, dividends per share of the 2010 year profit distribution amounted to TL 0.0002.

## 39 Cash generated from operations

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

## 40 Convertible bonds

None.

## 41 Redeemable preference shares

None.

## 42 Risks

In the normal course of its operations, the Company 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 Company 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 Company face is TL 583,083,000 in gross (31 December 2011: TL 380,599,000). The Company provided provision for outstanding claims in the consolidated financial statements by considering collateral amounts.

As at 31 December 2012, ongoing law suits prosecuted by the Company against the third parties amounting TL 149,734,000 (31 December 2011: TL 127,512,000).

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 details of the guarantees that are given by the Company for the operations in non-life branches are presented in *Note 17*.

The future aggregate minimum lease payments under operating leases for properties rented for use of head office and regional offices and motor vehicles rented for sales and marketing departments are as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Within one year | 6,159,725 | 5,894,579 |
| Between one to five years | 10,399,139 | 15,536,216 |
| Total of minimum lease payments | 16,558,864 | 21,430,795 |

## 44 Business combinations

None.

(CURRENCY: TURKISH LIRA (TL))

## 45 Related party transactions

The ultimate controlling party of the Company is İş Bankası Group and the groups having direct control over İş Bankası Group and the affiliates and associates of İş Bankası Group are defined as related parties of the Company.

The related party balances as of 31 December 2012 and 31 December 2011 are as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| İş Bankası – cash at banks | 465,060,997 | 487,105,204 |
| Türkiye Sınai ve Kalkınma Bankası – cash at banks | 17,590 | 9,937 |
| Banks | 465,078,587 | 487,115,141 |
| Bonds issued by İş Bankası *(Note 11)* | 49,009,793 | 50,886,817 |
| Investment funds founded by İş Bankası *(Note 11)* | 13,831,486 | 35,396,270 |
| Investment funds founded by İş Portföy Yönetimi A.Ş. *(Note 11)* | 9,903,600 | 8,909,100 |
| Investment funds founded by İşbank GmbH *(Note 11)* | 10,871,446 | 7,251,005 |
| Financial assets | 83,616,325 | 102,443,192 |
| İş Bankası – receivables stem from premiums written via the Bank | 50,912,248 | 43,203,869 |
| Receivables stems from premiums written via Şişecam Sigorta Aracılık Hiz. A.Ş. | 5,022,620 | 4,582,677 |
| Milli Reasürans T.A.Ş. - receivables from reinsurance operations | 1,674,053 | -- |
| Anadolu Hayat Emeklilik A.Ş. – premium receivables | 768 | 1,473 |
| Receivables from main operations | 57,609,688 | 47,788,019 |
| Milli Reasürans T.A.Ş.- payables from reinsurance operations | -- | 19,543,199 |
| İş Bankası – commission payables | 5,713,391 | 5,411,657 |
| Şişecam Sigorta Aracılık Hizmetleri A.Ş. - commission payables | 316,169 | 347,710 |
| Payables from main operations | 6,029,760 | 25,302,566 |
| Payables to shareholders | 15,494 | 15,494 |
| Payables to related parties | 15,494 | 15,494 |

No guarantees have been taken against receivables from related parties.

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

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

(CURRENCY: TURKISH LIRA (TL))

The transactions with related parties during the year ended 31 December 2012 and 2011 are as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| İş Bankası - premiums written via the Bank | 207,616,974 | 170,228,945 |
| Premiums written via Şişecam Sigorta Aracılık Hizmetleri A.Ş. | 35,458,879 | 31,293,362 |
| Anadolu Hayat Emeklilik A.Ş. - premiums written | 1,367,432 | 1,206,173 |
| Milli Reasürans T.A.Ş. | 412,000 | 324,416 |
| Premiums written | 244,855,285 | 203,052,896 |
| | | |
| Milli Reasürans T.A.Ş. | (66,506,251) | (107,095,353) |
| Premiums written, ceded | (66,506,251) | (107,095,353) |
| | | |
| İş Bankası - interest income from deposits | 36,272,739 | 20,438,072 |
| İş Bankası - income from investment funds | 9,874,011 | 1,531,752 |
| İş Bankası - income from bonds | 4,842,588 | 486,292 |
| Investment income | 50,989,338 | 22,456,116 |
| | | |
| İş Bankası - commission expense | (20,971,481) | (18,177,384) |
| Şişecam Sigorta Aracılık Hizmetleri A.Ş. - commission expense | (6,914,223) | (6,334,995) |
| Milli Reasürans T.A.Ş. - commission income | 16,860,842 | 20,760,512 |
| Operating expenses, net | (11,024,862) | (3,751,867) |

## 46 Events after the reporting date

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

## 47 Others

### 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

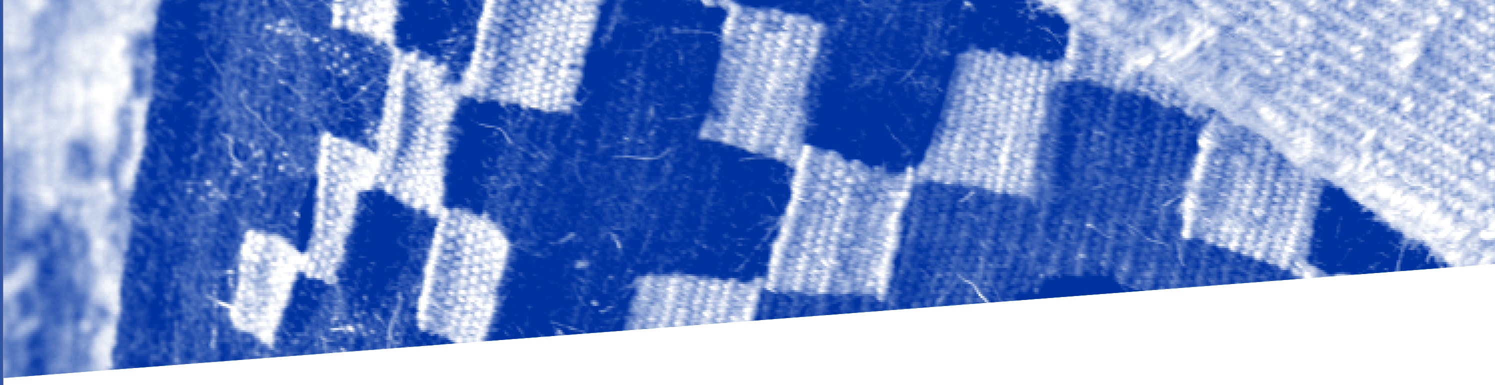
None.

(CURRENCY: TURKISH LIRA (TL))

For the year ended period 31 December 2012 and 2011, details of discount and provision expenses are as follows:

| Provision expenses | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Other provision income/(expense) | 721,494 | 6,306,117 |
| Provision expense for permission *(Note 23)* | (127,037) | (93,488) |
| Provision expense for employee termination benefits *(Note 23)* | (2,663,143) | (1,711,941) |
| Provision expense for doubtful receivables | (6,266,542) | (12,037,312) |
| Total of provisions | (8,335,228) | (7,536,624) |

| Rediscount expenses | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Rediscount income | 12,703,425 | 13,652,976 |
| Rediscount expense | (13,279,959) | (10,369,504) |
| Total of rediscounts | (576,534) | 3,283,472 |



# AN ASSESSMENT OF FINANCIAL STANDING, PROFITABILITY AND SOLVENCY

## Premium Production

Anadolu Sigorta registered TL 2,234,633 thousand in premium production in 2012. The greatest contributors to premium production were motor vehicles, motor vehicles liability, fire and natural disasters, and health/illness branches.

A portion in the amount of TL 454,182 thousand of premiums were ceded through reinsurance in 2012, thus significantly reducing retained risk in branches likely to present high claim settlements in particular, such as fire, watercraft and general losses.

## Solvency and Solvency Performance

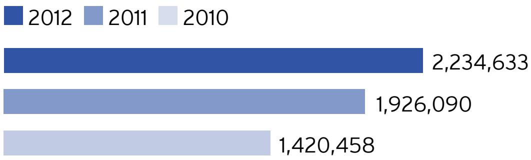
Having adopted it as a duty to make claim payments fully and timely to its policyholders, Anadolu Sigorta attained this goal once again in 2012 drawing on its solid asset structure and balanced liquidity ratio. A big part of the risk was ceded through reinsurance contracts made in branches under which high-amount coverage is provided such as fire and general losses, thus making it possible for the Company's asset structure to remain unaffected by claims paid in big amounts.

Up by 34.7% in 2012, claims paid amounted to TL 1,371,855 thousand. A significant portion of the claims paid arose, in order, from losses in motor vehicles, motor vehicles liability, health/illness, and fire and natural disasters branches. Combined loss/ premium ratio was 81.2%, 4.5 points higher than its 2011 value.

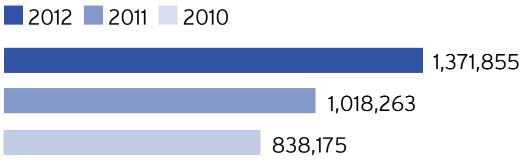
## Assessment of Profitability

The Company booked a loss of TL 63,981 thousand in 2012. Return on equity and return on assets stood at %-8.5 and %-2.6 respectively.

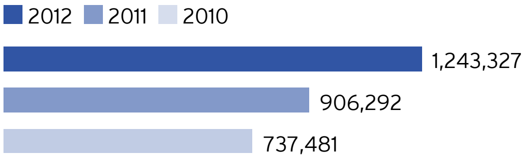
Premium Production
(TL thousand)



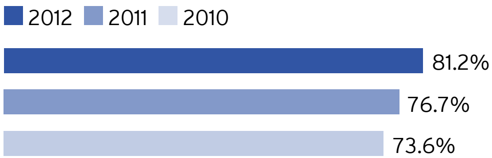

Claims Paid
(TL thousand)



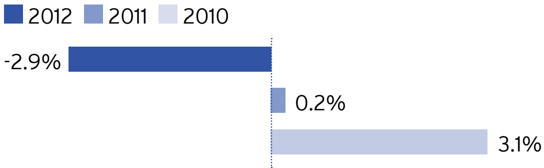

Combined Loss/ Premium Ratio
(TL thousand)



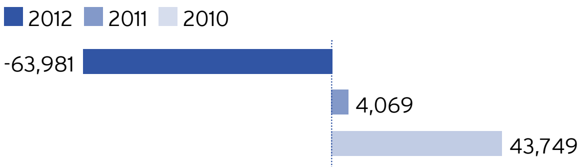

Loss/ Premium Ratio
(TL thousand)




Gross Profit-Loss / Premiums Received
(TL thousand)




Gross Profit-Loss
(TL thousand)



# INFORMATION ON FINANCIAL STRUCTURE

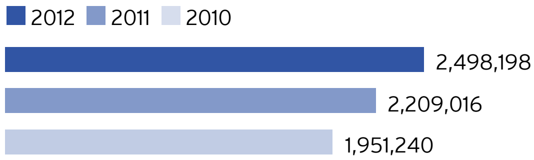
## Assets Performance

As of year-end 2012, total assets reached TL 2,498,198 thousand, up 13.1% year-on. With a share of 53% representing the largest item in total assets, total cash and financial assets grew 6.1% year-on to TL 1,323,944 thousand, giving confidence with respect to payment of possible losses to policyholders with this large volume.

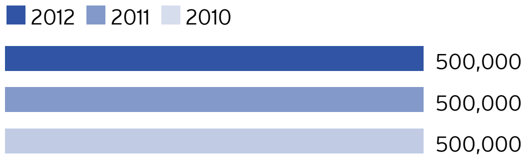
## Capital Volume

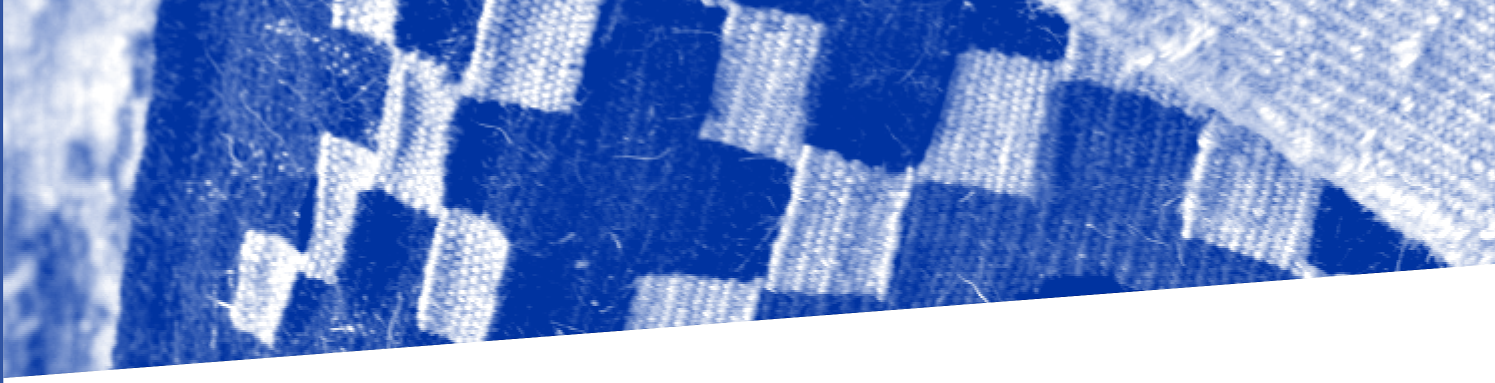
The nominal capital of Anadolu Sigorta was TL 500,000 thousand as at year-end 2012.

Total Assets
(TL thousand)




Nominal Capital
(TL thousand)





## SUMMARY FINANCIAL INFORMATION FOR THE LAST 5 YEARS INCLUDING THE REPORTING PERIOD

(TL thousand)

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Gross Premiums | 2,234,633 | 1,926,090 | 1,420,458 | 1,243,477 | 1,161,386 |
| Technical Division Balance | -72,500 | -10,068 | 43,108 | 50,142 | 96,671 |
| Investment Income | 154,411 | 150,280 | 143,931 | 162,323 | 176,944 |
| Investment Expenses | -154,270 | -141,443 | -128,587 | -150,424 | -117,741 |
| Other Income and Expenses | 8,378 | 5,300 | -14,703 | -2,824 | -15,151 |
| Period Gross Income (Loss) | -63,981 | 4,069 | 43,749 | 59,217 | 140,723 |
| Taxation | 0 | 0 | -6,203 | -11,053 | -23,056 |
| Period Net Income (Loss) | -63,981 | 4,069 | 37,546 | 48,164 | 117,666 |
| Shareholders' Equity | 756,361 | 705,124 | 848,547 | 806,387 | 607,991 |
| Total Assets | 2,498,198 | 2,209,016 | 1,951,240 | 1,743,898 | 1,534,376 |

www.anadolusigorta.com.tr

**HEAD OFFICE**
**Address: Büyükdere Caddesi İş Kuleleri**
**Kule 2 Kat: 22-26 34330**
**4. Levent/İstanbul/Turkey**

**Tel: (+90 212) 350 0 350**
**Fax: (+90 212) 350 0 355**

**E-mail: bilgi@anadolusigorta.com.tr**