

# 2005

Annual Report

# Being the preferred choice by creating distinctive and quality service

## **Our policy regarding quality**

To ensure the satisfaction of our customers, shareholders and employees by creating a high standard of service by rendering the best and highest quality services in line with our policy guidelines. To contribute to activities which bring about positive social benefits.

## **Our main objectives**

> To increase our market share by investing in technology and human resources and by constantly improving the quality of service.

> To ensure operational efficiency.

> To continue to render bank insurance services in an efficient manner and to improve in this area.

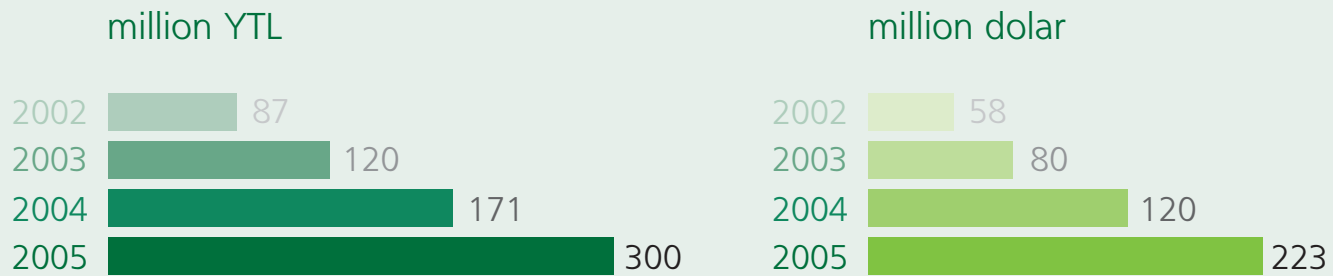
> To increase production and the volume of customers using approaches and services based on the banking customer segment of the bank distribution channel.

> To strengthen our presence in the Agency Distribution Channel

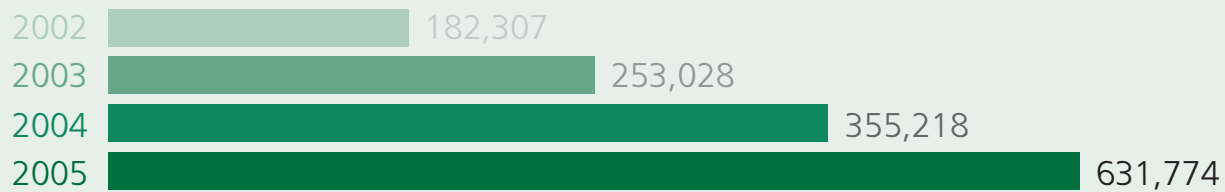
> To increase product use within our customer base by making more efficient use of Alternative Distribution Channels and to raise profitability by means of lower sales costs.

> To ensure efficiency risk management and customer-based pricing, and to ensure efficient portfolio management in all branches.

## We've expanded faster than the sector in the premium generation...



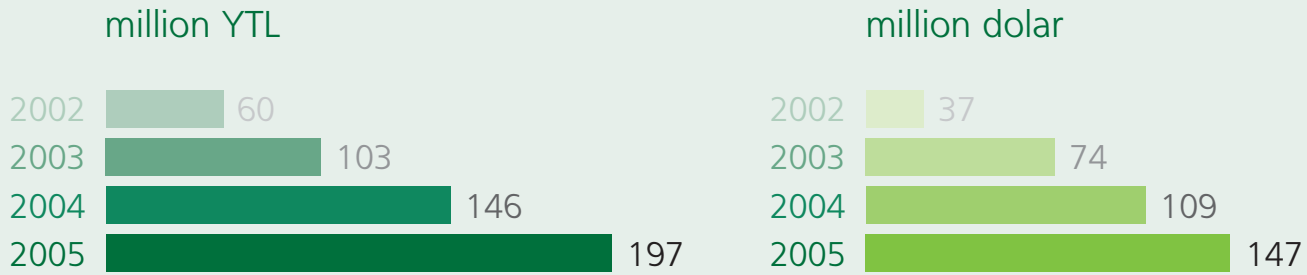
## The number of our policies has increased and our base is increasing...



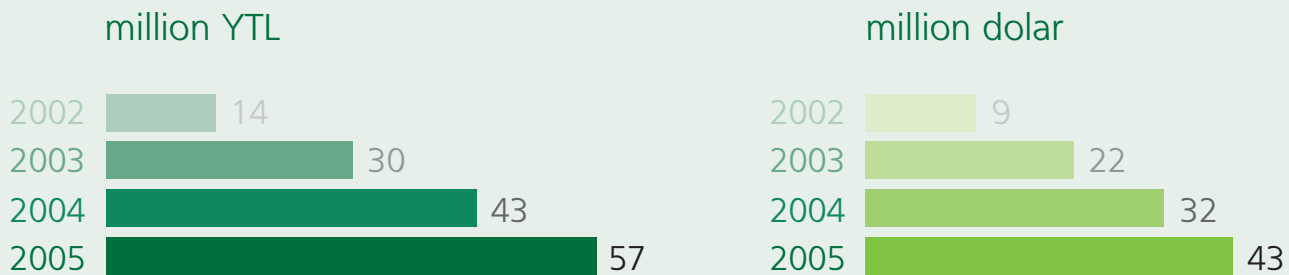
## Our technical profit is constantly increasing...



## We have increased our assets; we are growing...



## We have augmented our equity capital; we are growing stronger...



## We have grown in a profitable manner...



# Garanti Insurance in Brief

## Garanti Insurance is the most successful company of the sector in 2005\*

Garanti Insurance which operates in the non-life branch is the most successful applier and leader of banking insurance.

Garanti Insurance, in addition to bank distribution channels, provides insurance products and services to its customers with its nation wide agency and broker network. Garanti Insurance which has close relations with group companies carries out important work with companies on insurance. In 2005 significant production was realized through Alternative Distribution Channels, and Alo Garanti Insurance which operates 365 days 24 hours has taken on an important role in improving customer satisfaction.

Garanti Insurance has shown significant development in growth, profits and market share figures in 2005. While the insurance sector grew by 20,5% in 2005 Garanti Insurance has displayed a 75% growth with 299.6 million YTL productions to become the leader in growth. Garanti Insurance, knowing that growth has to be continuous and profitable, has closed 2005 with a 41 million YTL technical profit and showed a growth of 44%. Profit before tax has shown a 157% growth compared to the previous year and was 24.8 million YTL.

Garanti Insurance which closed 2005 in 9<sup>th</sup> order has increased its market share from 3,4% to 4.7%. (9<sup>th</sup> in 2004). When we examine on branch basis, in fire, marine, casualty and personal accident branches it is above total market share and is the sector leader in engineering and credit branches.

Garanti Insurance has won the tender in 2005 and has earned the right to manage Turkish Catastrophic Insurance Pool (TCIP) for 5 years. TCIP, has been established after the 1999 earthquake and continues its work with Compulsory Earthquake Insurance in being aware and prepared for earthquake which is one of the most important matters of our country.

Garanti Insurance which has a long term and deep rooted relation with international reinsurers is working intensively with companies such as Munich Re, Swiss Re, Maphre Re and Endurance. Garanti Insurance is in close cooperation with Milli Re which is the largest reinsurance company of our country.

Garanti Insurance is differentiated from its competitors in the sector with its business strategies, ability to correctly perceive and price risk, balanced portfolio structure, high technology and cost awareness it shapes with an innovative approach.

\* Has been elected by Dünya Newspaper.

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### Financial Indicators

At the end of its 16th year of operation, Garanti Insurance is an organization distinguished with its efficient marketing correct risk pricing policies, the variety of its distribution channels, its ability to render fast and high quality services and its devotion to ethical values, and is capable of attaining consistent and sustainable performance even in the hardest economic conjunctures encountered in our country.

Year	Amount
2002	11,989
2003	38,453
2004	72,987
2005	100,045

Year	Ratio
2002	17.1
2003	12.5
2004	16.6
2005	13.6

Year	Profit
2002	1,275
2003	14,216
2004	28,452
2005	40,896

Year	Profit
2002	4,000
2003	6,000
2004	6,600
2005	15,803

Year	Ratio
2002	21.8
2003	22.2
2004	43.2
2005	43.2

Year	Ratio
2002	13
2003	6.6
2004	12.6
2005	12.6

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### Board of Directors

<b>Adnan Acar</b> Chairman of the Board of Directors	<b>Hüsnü Akhram</b> Vice Chairman of the Board of Directors	<b>Can Ünal</b> Member	<b>Nafiz Karabulut</b> Member	<b>Çengiz Seğin</b> Member	<b>Mehin Ar</b> Member	<b>Murat Akça</b> Member	<b>Heaven Güller</b> Member and General Director
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### Executive Management

From left to right:

<b>And Raif Gülsen</b>	<b>Can Sarıbaş</b>	<b>İlhan Akay</b>	<b>Özlem Öster</b>	<b>Bülent Özal</b>	<b>Silke Çele</b>	<b>Arda Turuncu</b>	<b>Serpil Özlük Yalut</b>	<b>Hayran Gülsen</b>	<b>Özlem Akaykaya</b>	<b>Hakan Öster</b>	<b>Ferhan Doay</b>
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### On Behalf of the Board of Directors

**Adnan Acar**  
Chairman of the Board of Directors

The Garanti brand is our leading positive value. The business philosophy, customer-oriented approach, devotion to ethical values and vast business experience of the Doguş Group and thus Garanti Bank are among the foremost of those values and our most important guides.

**Dear shareholders,**  
Sustainable performance

During the year 2005 when hopeful progress was made, Garanti Insurance maintained its solid performance level in spite of rapidly changing market conditions and completed yet another year of operation with successful financial and operational results.

I thank you

Here, I would like to thank the Garanti Insurance team, our agencies and brokers who helped us to build the sustainable performance and to our precious customers who preferred us.

**Doguş Group, Garanti Bank and our Company**

Our shareholder Doguş Group continues to firm guidance and help on the insurance sector in all kinds of market conjunctures, and to provide us with great and operational support. One of the important reasons of this support and the Group's service penetration strategy is our synergy cooperation with Garanti Bank. From the day our company was first established, Garanti Bank continues to be our most important distribution channel and to have the greatest share in our premium generation.

In 2005, Garanti Insurance continued the practice of bancassurance. The positive effects of ensuring the integration with bank distribution channels which generate the majority of the premiums rapidly became apparent not only to our premium generation but also to service penetration.

Right along with bank integration, system integration has also been realized with our great friend IOP and Garanti leaving results of these successful operations have been reflected in production.

The Garanti brand is our leading positive value. The business philosophy, customer-oriented approach, devotion to ethical values and vast business experience of the Doguş Group and thus Garanti Bank are among the foremost of those values and our most important guides.

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### Message by the General Director

**Heaven Güller**  
General Director

2005 has ended as a successful year for Garanti Insurance which is distinguished with its innovative, quality and effective service perspective. Our company has increased its premium generation by 75%, achieving 40.9 million YTL technical profits and continuing to offer its products and services to an ever growing customer base.

Our eminent business partners, agencies, dear employees and esteemed customers who are giving strength to Garanti Insurance;

We are delighted to share our activity report for the year 2005 with you.

2005 will be remembered as a period of achieving pleasing developments and securing positive macro-economic results both for Garanti Insurance and our sector.

The economic environment is reflecting a pessimistic outlook. Today, while having the year 2002 behind, if we turn back and look at the past, and evaluate the last four years during which the adverse effects of the economic crisis we faced in 2002 were remembered by a single instant, I see a general economic atmosphere where the economy has grown by 7.7% on average and a single digit figure in the inflation rate is gradually approaching the early 1990s. Economic and political stability has been achieved. Significant advances are made in privatization matters, disbursements with the EC targets, foreign investments have reached to a significant extent and it started to change its structure in such a way that the base of the state foreign capital in total investments has increased, but despite these, however, the level of current deficit in balance of payments has also increased.

Looking at the year 2005, compared to a more stable general economic conjuncture have been met to a large extent, significant advances in fighting the inflation rate made, and while the terms of commercial loans, and especially the home loans have been extended, their charge were also increased.

**Insurance sector and Garanti Insurance**

While the general outlook, if we are to take a closer look at the insurance sector, we observed a trend which is parallel to the approach "during the strength of economic recovery, the insurance sector performs even better". The insurance sector caught a 15.2% growth trend and reached to a size of 7.8 billion YTL in volume, to have a CAGR rate reached 10% in 2005.

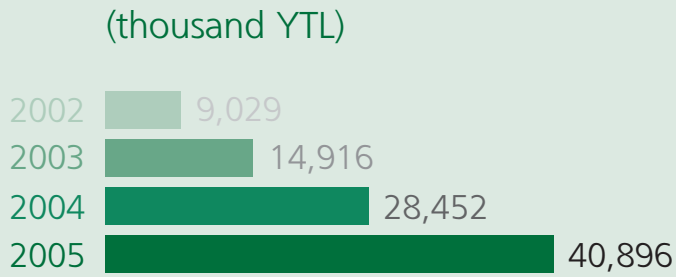
Whereas, when the non-life insurance companies, among which Garanti Insurance also takes place, are evaluated, the companies have grown by 20.7% and reached to a size of 6.3 billion YTL in volume.



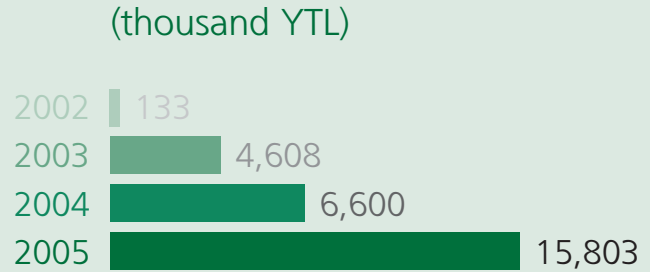
## Financial Indicators

At the end of its 16th year of operation, Garanti Insurance is an organization distinguished with its efficient marketing correct risk pricing policies, the variety of its distribution channels, its ability to render fast and high quality services and its devotion to ethical values; and is capable of attaining consistent and sustainable performance even in the hardest economic conjunctures encountered in our country.

### Technical profit

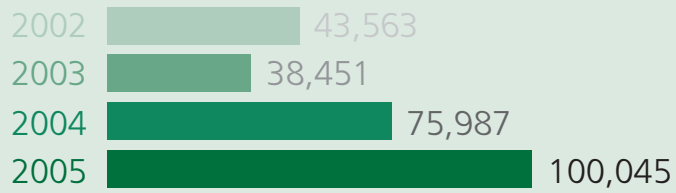


### Net profit



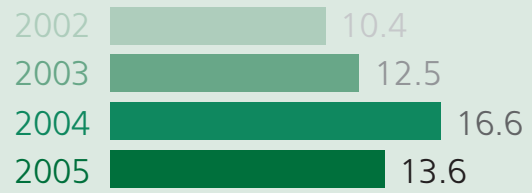
### Amount of claims paid

(thousand YTL)



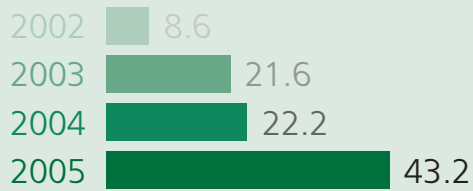
### Technical profitability ratio

%



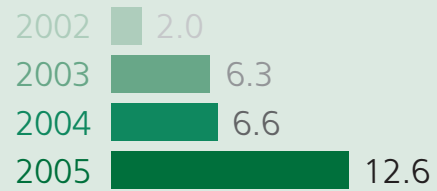
### Equity capital profitability

%



### Asset profitability

%



## Board of Directors

**Aclan Acar**  
Chairman of the Board of  
Directors

**Hüsnü Akhan**  
Vice Chairman of the Board of  
Directors

**Can Verdi**  
Member

**Nafiz Karadere**  
Member

## Executive Management

From left to right:

**Anıl Rasih Gülcen**

**Cem Sarıbayraktar**

**Atilla Benli**

**İdil Aktaş**

**Yılmaz Yıldız**

**Özlem Odar**

**Bülent Özkal**

**Süha Çele**



Cüneyt Sezgin  
Member

Metin Ar  
Member

Murat Aka  
Member

Hasan Güller  
Member and General  
Director

Arda Tuncay

Serpil Öztürk Yakut

Özlem Akkayalı

Ferhan Özay

Okan Utkueri

Birol Çıtak

Noyan Güvenç

Hakan Özduran

Hasan Güller



## On Behalf of the Board of Directors



**Aclan Acar**  
Chairman of the Board of Directors

The Garanti brand is our leading positive value. The business philosophy, customer-oriented approach, devotion to ethical values and vast business experience of the Dođuş Group and thus Garanti Bank are among the foremost of those values and our most important guides.

Dear shareholders,

### Sustainable performance

During the year 2005 when hopeful progress was made, Garanti Insurance maintained its usual performance level in spite of rapidly changing market conditions and completed yet another year of operation with successful financial and operational results.

### I thank you

Here, I would like to thank the Garanti Insurance team, our agencies and brokers who helped us to build this sustainable performance and to our precious customers who preferred us.

### Dođuş Group, Garanti Bank and our Company

Our shareholder Dođuş Group continued to firmly believe and rely on the insurance sector in all kinds of market conjuncture, and to provide us with great and uninterrupted support. One of the important consequences of this support and the Group's service presentation strategy is our synergic cooperation with Garanti Bank. From the day our company was first established, Garanti Bank continues to be our most important distribution channel and to boast the greatest share in our premium generation.

In 2005, Garanti Insurance continued the practice of bancassurance. The positive effects of maximizing the integration with bank distribution channels which generate the majority of the premiums rapidly became apparent not only on premium generation but also on service presentation.

Right along with bank integration, system integration has also been realised with our group firms VDF and Garanti Leasing; results of these successful operations have been reflected in production.

The Garanti brand is our leading positive value. The business philosophy, customer-oriented approach, devotion to ethical values and vast business experience of the Dođuş Group and thus Garanti Bank are among the foremost of those values and our most important guides.

## On Behalf of the Board of Directors

### Our agencies and brokers

Our cooperation with our agencies and brokers based on mutual respect, productivity and ethical principles continued throughout the year. Our medium-term objectives are to strengthen our agency channel and to increase the share of our business partners in the growing premium generation.

Our policy in this field will continue to develop within the framework of the principles of mutual trust, determination and long-term relation as well as resolution.

### Our customers

For the Doğuş Group and Garanti, the customer is the focal point. Unconditional customer satisfaction is at the core of all corporate actions taken by Garanti Insurance and steers all decisions. An insurance company must act consistently on any subject that a customer is seeking assurance for and to fulfill the requirements brought about by its signature on the policy in an excellent manner.

As Garanti Insurance, we attach great importance to act efficiently, rapidly and accurately in all phases of the insurance process from marketing to policy renewal, from damage ascertainment to damage payment. The pains we take over this subject establish the quality of our service and ensure that our customers are satisfied of our services. I would like to thank all of our customers for the trust they put in Garanti Insurance.

### Our employees

Our sustainable accomplishments result from team work. All of our employees worked with determination and enthusiasm by putting their hearts into their work in 2005 with the purpose of advancing Garanti Insurance even further.

In our struggle to render services, satisfying our employees is as important as our product and service spectrum. As always, we use efforts to present our employees with the best possible employment opportunities allowed by current market conditions. We continue to be engaged in practices feeding the team spirit and supporting the act of being a team as well as a contemporary and modern working environment, and in corporate training work without losing momentum.

In the field of insurance where competition is growing fiercer day by day, we have to grow and continue to go our way by being engaged in our principal work. In the new economic environment where inflation is finally down to one-digit figures, the era of surviving with financial profits is over. Technical profit or, to put it simply, income to be obtained by presenting insurance products and services in simple terms, will determine competition and permanence in the market in the medium term.

### While moving ahead towards the future

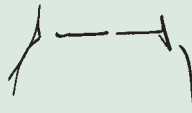
Garanti Insurance is moving ahead towards the future by taking firm steps. We are aware that the times ahead will not be easier than yesterday. The market we are in is sure to cause not only new opportunities but also new problems to arise.

In the field of insurance where competition is growing fiercer day by day, we have to grow and continue to go our way by being engaged in our principal work. In the new economic environment where inflation is finally down to one-digit figures, the era of surviving with financial profits is over. Technical profit or, to put it simply, income to be obtained by presenting insurance products and services will determine competition and permanence in the market in the medium term.

As long as we keep on progressing towards the same goal together with our agencies, employees and customers, the future will be even finer for Garanti Insurance in spite of any obstacles that could be encountered along the way.

Saying farewell to Garanti Insurance where I acted as the Chairman of the Board of Directors, I want to revoice my thanks to Garanti Insurance family and wish continuing success.

Best regards,



**Aclan Acar**  
Chairman of the Board of Directors

## Message by the General Director



**Hasan Güller**  
General Director

**2005 has ended as a successful year for Garanti Insurance which is distinguished with its innovative, quality and effective service perspective. Our company has increased its premium generation by 75%, achieving 40.9 million YTL technical profits and continuing to offer its products and services to an ever growing customer base.**

**Our eminent business partners, agencies, dear employees and esteemed customers who are giving strength to Garanti Insurance;**

We are delighted to share our activity report for the year 2005 with you.

2005 will be remembered as a period of achieving pleasing developments and securing positive macro-economic results both for Garanti Insurance and our sector.

### **The economic environment is reflecting a positive outlook**

Today, while leaving the year 2005 behind, if we turn back and look at the past, and evaluate the last four years during which the adverse effects of the economic crisis we faced in 2001 were remedied to a large extent, I see a general economic atmosphere where the economy has grown by 7.5% on average and a single digit figure in the inflation rate is eventually achieved after many long years, economic and political stability has been achieved, significant advances are made in privatization revenues, dialogues with the EC began, foreign investments have reached to a significant volume and it started to change in structure in such a way that the share of the direct foreign capital in total investments has increased, but besides these, however, the level of current deficit in balance of payments has also increased.

Looking at the year 2005, I perceive it as a year when general economic targets have been met to a large extent, significant advances in fighting the inflation were made, and while the terms of consumer loans, and especially the home loans have been extended, their usage were also increased.

### **Insurance sector and Garanti Insurance**

Within this general outlook, if we are to take a closer look at the insurance sector, we observed a trend which is parallel to the approach "during the periods of improving economy, the insurance sector performs even better". The insurance sector caught a 15.2% growth trend and reached to a size of 7.8 billion YTL in volume. Its share in GNP also reached 1.60% in ratio.

Whereas, when the non-life insurance companies, among which Garanti Insurance also takes place, are evaluated, the companies have grown by 20.5% and reached to a size of 6.3 billion YTL. in volume.

## Message from the General Manager

### Turkish Catastrophe Insurance Pool is under Garanti Insurance administration for 5 years...

The non-life insurance sector which has grown above the general economy in real terms, could only attain 589 million YTL profits in terms of technical profitability. The reasons for this result not standing at higher levels can be shown as the impact of the price indexed competition and the technical losses of minus 9% in the accident branch, which has a 59% share in premium generation.

The financial revenues, which had declined due to decreased inflation and interest rates, now have given rise to the necessity of focusing on technical profits in the insurance sector. Competition is to be sought, not in prices but in service quality and differentiation.

Garanti Insurance which is one of the major players of non-life insurance sector has become the fastest growing insurance company with the greatest increase in market share in 2005 by increasing its premium generation by 75% (premium increase of the non-life companies is 20.5%) and reaching a 299.6 million YTL premium in volume.

Whereas, in terms of technical profitability, while becoming one of the companies with the highest technical profit in absolute value, with a 44% increase equalling to a 40.9 million YTL technical profitability, it has reached a 14% technical profit ratio (9% in non-life companies).

With these data, Garanti Insurance has become a company which has shown with de facto results that growth can also be profitable.

The insurance sector should be aiming for a sustainable and profitable growth and control its costs much better within the country economy, where we expect a positive outlook and a downwards trend in the inflation and interest rates to continue. Garanti Insurance has started to harvest the fruits of its policies, which are pursued with great consciousness and determination, and has achieved a very distinguished position for itself in the sector. Now, its time to maintain the continuity in this subject.

### Relations with Doğuř Group

Garanti Insurance, the leader organization of the bancassurance business, which had maintained this leadership also in 2005, has improved its collaboration with Garanti Bank and other companies of the Doğuř Group. The close collaboration with Garanti Leasing, Vdf and Doğuř Automotive have been built and developed on the basis of win-win principle. These co-operations have made great contributions to our Group Companies and Garanti Insurance, both in terms of competitive advantage in the sector and also in terms of customer satisfaction. branches.

## Turkish Catastrophe Insurance Pool

### “Turkish Catastrophe Insurances Pool”

Garanti Insurance has undertaken the administration of Turkish Catastrophe Insurances Pool for a period of 5 year in 2005. While continuing to advance this institution to even higher positions, with the awareness of social responsibility, in collaboration with the other 25 insurance companies, which are currently providing Compulsory Earthquake Insurances together with their agencies, brokers and bank branches, the number of policies has exceeded 2.5 million. We are aware of and acknowledge the significant efforts of the insurance companies, agencies, brokers and bank branches in achieving this figure.

### Creating service differentiation

Another area that differentiates Garanti Insurance is the effective usage of its Alternative Distribution Channels. While reaching a 10 million YTL generated figure after a 3 years of work and implementation period, the opportunity is created to reach and provide services to customers, who could not be reached by traditional distribution channels. Our investments directed towards this area will be continued and diversified.

### Relations with distribution channels

The number of our agencies with whom “we could all eat from the same dish” has exceeded 100. The targetted number of 150, as of end 2006, will be achieved and this number will be fixed. The ethics and principled approach and reliable stature of Garanti Insurance are the virtuous which are preferred by the agencies and the brokers. Our policy also in these distribution channels is to build them on the “win-win” principle and to increase the production through these channels as a company which “delivers what it says and does not make any promises on what it cannot deliver”.

### Investing in technology and people

Our technology is an important differentiator which raised us to the position where we stand today. We started to reap the results of a 3 years of investment in 2005. While our policy number reached to 632.000 policies, with an increase of 78%, we could manage this growth and achieve customer satisfaction with the strength given to us by our technological infrastructure. I see this only as a beginning. The coming years will carry Garanti Insurance to

## Message from the General Manager

an unrivalled position in this area as well.

And our employees are "our most valuable asset" who carried Garanti Insurance to this present day. We perceived this investment, we have made on our employees, as the investments we have made to our company. The "Institutional Wellness" project, which we started in 2004, brought along with it a rapid improvement and variations in 2005. We have opened our sports complex. Our employees found an opportunity to engage in sports activities accompanied by an assigned specialist in a fully equipped center in the mornings, at noons and in the evenings. Our aerobics lessons also began. We are practicing yoga at noons.

We aimed to release the burden of stressful business life. With the contribution of our dietitian, our employees started to eat healthier foodstuff. We contributed to the development of team spirit by participating in the bowling tournaments, by going to movies and theatre activities together. We cannot overdo in what we are doing for the employees of our company which provide consultancy services and create loyalty. Because my colleagues deserve even more.

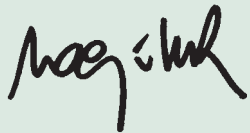
### About the future

We believe in the great potential of the insurance sector in our country which is awaiting discovery. Our Company, with its sound capital, exceptional human resources and its strategies, which are under every kind of market conditions with successful results, will convert this great potential to increasing business volumes.

Garanti Insurance has the energy to realize its vision. Our company will serve even more customers with its unquestionable leadership in bancassurance business and with our agencies and brokers who are our business partners with whom "we all eat from the same dish".

I extend my gratitude to our Board of Directors which guided our work with their vast experience. I convey my thanks to all our customers, agencies, brokers who preferred us and to our beloved employees who have contributed to every bit of this success with their great efforts. I remain,

Yours truly,



**Hasan Güller**  
General Director

## Assessment of the Activity Results for the Year 2005

### Premium Generation

Garanti Insurance's total premium generation increased by 75% in 2005 and rose from YTL 171.1 million to YTL 299.6 million.

The examination of the portfolio on the basis of branches reveals that the motor branch has the biggest share with 25%. The motor branch is followed by the fire branch (21.5%) and non-engine branch respectively.

### Premium generation

(thousand YTL)					
	Garanti Insurance		Non-Life Companies		
		% Change		% Change	
2000	39,262	94	1,302,272	80	
2001	59,112	51	1,881,866	45	
2002	87,098	47	2,734,125	45	
2003	119,764	38	3,698,279	35	
2004	171,052	43	5,264,471	43	
2005	299,638	75	6,344,608	21	

### Increase in premium generation by branches

(thousand YTL)					
	Garanti Insurance		Non-Life Companies		
Branches	2005	% Change	2005	% Change	
Fire	64,377	40	1,135,636	6	
Transport	21,939	25	290,102	8	
Casualty	139,226	116	3,714,966	22	
Engineering	37,182	32	320,439	16	
Agriculture	270	-	48,564	65	
Health	14,012	308	593,809	47	
Personal Accident	18,546	111	214,016	45	
Credit	3,797	42	4,489	67	
Legal Protection	289	127	21,584	14	

## Profitability

Garanti Insurance's gross profit for the year 2005 amounted to YTL 24.8 million.

The technical profit for the year 2005 amounted to YTL 40.9 million. The examination of the sub-components of the technical profit on the basis of branches reveals that the biggest share belongs to fire insurance with YTL 13 million.

## Technical profitability

Years	(thousand YTL)	
	Technical profit	Change%
2000	7,377	374
2001	5,829	(21)
2002	9,029	55
2003	14,916	65
2004	28,452	91
2005	40,896	44

## Gross profit

	(thousand YTL)	
	Gross profit	Change%
2000	3,654	-
2001	4,520	23.7
2002	1,204	(73)
2003	6,463	437
2004	9,626	49
2005	24,774	157

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Başaran Nas Serbest Muhasebeci  
Mali Müşavirlik A.Ş.  
a member of  
PricewaterhouseCoopers  
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Beşiktaş 34357 İstanbul-Turkey  
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#### AUDITOR'S REPORT

To the Board of Directors of  
Garanti Insurance A.Ş.

1. We have audited the accompanying balance sheet of Garanti Insurance A.Ş. ("the Company") at 31 December 2005 and the related statements of income and of cash flows for the year then ended, all expressed in the equivalent purchasing power of the Turkish lira as of 31 December 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at 31 December 2005 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Başaran Nas Serbest Muhasebeci  
Mali Müşavirlik A.Ş.  
a member of  
PricewaterhouseCoopers

Talar Gül, SMMM  
Sorumlu Ortak, Başdenetçi

Istanbul, 1 May 2006

GARANTİ INSURANCE A.Ş.

**BALANCE SHEETS AT 31 DECEMBER 2005 AND 2004**

(Amounts expressed in New Turkish Lira ("YTL") in terms of the purchasing power of the YTL as at 31 December 2005)

	Notes	2005	Restated 2004
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	93,929,172	12,561,302
Financial assets at-fair-value-through income	6	-	10,182,629
Held-to-maturity financial assets	6	202,977	-
Available-for-sale financial assets	6	6,957,935	16,001,649
Premiums receivable, net	7	69,381,950	64,877,779
Due from insurance and reinsurance companies	13	2,840,743	2,835,516
Deferred commission expense		14,769,207	7,459,348
Other assets	8	1,498,241	7,247,271
<b>Total current assets</b>		<b>189,580,225</b>	<b>121,165,494</b>
<b>Non-current assets</b>			
Available-for-sale equity securities	11	137,818	55,834
Financial assets at-fair-value-through income	6	-	7,448,539
Held-to-maturity financial assets	6	-	200,892
Available-for-sale financial assets	6	-	9,769,921
Deferred tax assets, net	12	5,312,777	4,804,834
Property and equipment, net	9	12,554,307	12,873,083
Intangible assets, net	10	1,480,995	1,114,584
<b>Total non-current assets</b>		<b>19,485,897</b>	<b>36,267,687</b>
<b>Total assets</b>		<b>209,066,122</b>	<b>157,433,181</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Due to insurance and reinsurance companies	13	35,974,036	31,021,978
Premium reserves	13	-	96,352
Taxes on income	12	2,082,319	1,081,914
Short-term lease obligations	9	605	2,497
Other liabilities	14	2,669,455	11,073,228
<b>Total current liabilities</b>		<b>40,726,415</b>	<b>43,275,969</b>
<b>Insurance reserves, net of reinsurance</b>			
Reserve for unearned premiums	15	62,399,068	43,277,671
Deferred commission income	15	13,860,261	9,547,884
Claims provision	15	23,796,554	14,533,381
<b>Total insurance reserves</b>		<b>100,055,883</b>	<b>67,358,936</b>
<b>Non-current liabilities</b>			
Provision for employment termination benefits	16	406,706	419,389
Long-term lease obligations	9	-	632
<b>Total non-current liabilities</b>		<b>406,706</b>	<b>420,021</b>
<b>Total liabilities</b>		<b>141,189,004</b>	<b>111,054,926</b>
<b>Shareholders' equity</b>			
Share capital	17	35,000,000	25,000,000
Adjustment to share capital		54,351,873	59,212,026
Total paid-in capital		89,351,873	84,212,026
Available-for-sale reserve		17,979	-
Accumulated deficit		(21,492,734)	(37,833,771)
<b>Total shareholders' equity</b>		<b>67,877,118</b>	<b>46,378,255</b>
<b>Total liabilities and shareholders equity</b>		<b>209,066,122</b>	<b>157,433,181</b>

These financial statements have been approved for issue by the General Manager of the Company on 1 May 2006.

The accompanying notes form an integral part of these financial statements.

GARANTI INSURANCE A.Ş.

## STATEMENTS OF REVENUES NON - LIFE BUSINESS FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

(Amounts expressed in New Turkish Lira ("YTL") in terms of the purchasing power of the YTL as at 31 December 2005)

Non-Life Insurance Business	Notes	2005	Restated 2004
Earned premiums, net of reinsurance		100,799,871	71,944,013
Gross premiums written	302,338,396		186,088,930
Outward reinsurance premiums	(182,417,128)		(101,251,108)
Change in the reserve for unearned premiums, net of reinsurance	(19,121,397)		(12,893,809)
Claims incurred, net of reinsurance			
Claims paid, net		(46,594,124)	(30,521,640)
Gross amount	(101,073,817)		(82,530,815)
Reinsurers' share	54,479,693		52,009,175
Change in claims provision, net of reinsurance		(9,948,747)	(5,557,050)
Gross amount	(70,977,975)		(63,482,437)
Reinsurers' share	61,029,228		57,925,387
Commission income, net		(316,850)	(3,056,901)
Commission income	23,398,590		20,573,855
Commission expenses	(23,715,440)		(23,630,756)
Other income 20		4,097,342	6,401,799
Other expenses 21		(6,161,965)	(7,690,268)
<b>Income from non-life insurance business</b>		<b>41,875,527</b>	<b>31,519,953</b>

The accompanying notes form an integral part of these financial statements.

## STATEMENTS OF INCOME FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

(Amounts expressed in New Turkish Lira ("YTL") in terms of the purchasing power of the YTL as at 31 December 2005)

	Notes	2005	Restated 2004
<b>Total technical income</b>		<b>41,875,527</b>	<b>31,519,953</b>
Interest income		12,825,082	10,137,596
Change in fair value of investments		-	978,282
Gain on sale of property and equipment		13,562	-
Dividend income		-	7,261
Foreign exchange income		555,560	895,222
Other income		1,150,716	221,075
<b>Total income</b>		<b>56,420,447</b>	<b>43,759,389</b>
<b>Expenses</b>			
General and administrative expenses	19	(26,260,119)	(21,865,579)
Provision for doubtful and overdue receivables		(157,299)	(80,715)
Provision for employment termination benefits		(388,222)	(361,345)
Foreign exchange losses		(379)	(2,182,504)
Loss on sale of property and equipment		-	(441)
Impairment on property and equipment	9	-	(4,354,632)
Loss on sale of marketable securities		(2,923)	(995,105)
Other expenses and losses		(801,547)	(462,742)
Loss on net monetary position		(4,211,840)	(7,252,867)
<b>Total expenses</b>		<b>(31,507,731)</b>	<b>(37,555,930)</b>
<b>Income before tax</b>		<b>24,912,716</b>	<b>6,203,459</b>
Taxes on income	12	(8,571,679)	(1,831,867)
<b>Net income</b>		<b>16,341,037</b>	<b>4,371,592</b>

The accompanying notes form an integral part of these financial statements.

GARANTİ INSURANCE A.Ş.

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

(Amounts expressed in New Turkish Lira ("YTL") in terms of the purchasing power of the YTL as at 31 December 2005)

	Share capital	Adjustment to share capital	Other reserve	Accumulated deficit	Total
<b>Balance at 1 January 2004 as previously reported</b>	<b>16,000,000</b>	<b>58,735,705</b>	<b>-</b>	<b>(37,249,935)</b>	<b>37,485,770</b>
Change in accounting policy, deferred acquisition costs	-	-	-	(1,008,035)	(1,008,035)
<b>Balance at 1 January 2004 as restated</b>	<b>16,000,000</b>	<b>58,735,705</b>	<b>-</b>	<b>(38,257,970)</b>	<b>36,477,735</b>
Increase in share capital	9,000,000	1,057,195	-	-	10,057,195
Transfers	-	(580,874)	-	580,874	-
Dividends paid	-	-	-	(4,528,266)	(4,528,266)
Net income for the year	-	-	-	4,371,591	4,371,591
Other reserve	-	-	-	-	-
<b>Balance at 31 December 2004 as restated</b>	<b>25,000,000</b>	<b>59,212,026</b>	<b>-</b>	<b>(37,833,771)</b>	<b>46,378,255</b>
	Share capital	Adjustment to share capital	Other reserve	Accumulated deficit	Total
<b>Balance at 1 January 2005 as previously reported</b>	<b>25,000,000</b>	<b>59,212,026</b>	<b>-</b>	<b>(36,023,536)</b>	<b>48,188,490</b>
Change in accounting policy deferred acquisition costs	-	-	-	(1,810,235)	(1,810,235)
<b>Balance at 1 January 2005 as restated</b>	<b>25,000,000</b>	<b>59,212,026</b>	<b>-</b>	<b>(37,833,771)</b>	<b>46,378,255</b>
Increase in share capital	5,076,320	63,527	-	-	5,139,847
Transfers	4,923,680	(4,923,680)	-	-	-
Other reserve	-	-	17,979	-	17,979
Net income for the year	-	-	-	16,341,037	16,341,037
<b>Balance at 31 December 2005</b>	<b>35,000,000</b>	<b>54,351,873</b>	<b>17,979</b>	<b>(21,492,734)</b>	<b>67,877,118</b>

The accompanying notes form an integral part of these financial statements.

GARANTI INSURANCE A.Ş.

## STATEMENTS OF CASH FLOWS

## FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

(Amounts expressed in New Turkish Lira ("YTL") in terms of the purchasing power of the YTL as at 31 December 2005)

	Notes	2005	Restated 2004
<b>Cash flows from operating activities</b>			
Cash generated from/(used in) operations	23	38,126,193	14,609,241
Taxes paid		(7,970,719)	(4,070,184)
Interest paid		-	(95)
Employment termination benefits paid		(149,878)	(58,044)
<b>Net cash generated from/(used in) operating activities</b>		<b>30,005,596</b>	<b>10,480,918</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment	9	(1,422,874)	(970,789)
Purchase of intangible assets	10	(416,543)	(407,945)
Proceeds from sale of property and equipment	23	32,528	936
Increase in marketable securities		34,600,557	(20,697,428)
Interest received		14,720,687	10,323,637
Dividends paid		-	(4,528,266)
<b>Net cash provided by investing activities</b>		<b>47,514,355</b>	<b>(16,279,855)</b>
<b>Cash flows from financing activities</b>			
Capital increase		5,139,848	9,476,320
Finance lease principal payments		(2,524)	(31,033)
Available-for-sale reserve		17,979	-
Inflation effect on operating activities		110,075	234,284
<b>Net cash provided by/(used in) financing activities</b>		<b>5,265,378</b>	<b>9,679,571</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>82,785,329</b>	<b>3,880,634</b>
<b>Inflation effect on cash and cash equivalents</b>		<b>(1,417,459)</b>	<b>774,577</b>
Cash and cash equivalents at beginning of year	3	12,561,302	7,906,091
Cash and cash equivalents at end of year	3	93,929,172	12,561,302

The accompanying notes form an integral part of these financial statements.

GARANTI INSURANCE A.Ş.

**NOTES TO FINANCIAL STATEMENTS****31 DECEMBER 2005**

(Amounts expressed in New Turkish Lira ("YTL") in terms of the purchasing power of the YTL as at 31 December 2005)

**NOTE 1 - NATURE OF OPERATIONS**

Garanti Insurance A.Ş. ("the Company") is registered in Istanbul, Turkey. The Company is engaged in all types of property and casualty business. Life insurance portfolio of the Company was transferred to Garanti Emeklilik ve Hayat A.Ş. in March 2001, with the approval of the Undersecretariat of Treasury dated 12 December 2000. The Company has 338 employees at 31 December 2005(2004: 262 employees).

The address of the registered office of the Company is as follows:

Mete Cad. Park Han No:40  
Taksim, Istanbul

**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS****New Turkish Lira financial statements**

These financial statements are prepared in accordance with, and comply with, International Financial Reporting Standards ("IFRS"), including the International Accounting Standards ("IAS") and interpretations issued by the International Accounting Standards Board ("IASB"). The Company maintains its books of account and prepares its statutory financial statements in New Turkish Lira ("YTL") in accordance with the Turkish Commercial Code, Insurance Supervisory Law and tax legislation. These financial statements are based on the statutory records, with adjustments and reclassifications, for the purpose of fair presentation in accordance with IFRS.

The financial statements are presented in the national currency of the Republic of Turkey, the YTL, expressed in terms of the purchasing power of YTL at 31 December 2005.

Through the enactment of the Law No:5083 concerning the "Currency of the Republic of Turkey" in the Official Gazette dated 30 January 2004, the New Turkish lira ("YTL") and the New Kuruş ("YKr") have been introduced as the new currency of the Republic of Turkey, effective from 1 January 2005. 1 YTL is worth 100 YKr. When the prior currency, Turkish lira ("TL"), values are converted into YTL, one million TL (TL1,000,000) shall be equivalent to one YTL (YTL1). Accordingly, the currency of the Republic of Turkey is simplified by removing 6 zeroes from the TL.

YTL replaced Turkish Lira in the presentation of financial statements and in the books since 1 January 2005. Within this framework figures expressed in millions of TL in 31 December 2004 are presented in YTL for comparative purposes.

**Adoption of revised standards**

Effective from 1 January 2005 the Company adopted the following revised standards of IFRS which are relevant to its operations. The 2004 accounts have been amended in accordance with the relevant requirements.

IAS 1 (revised)	Presentation of Financial Statements
IAS 8 (revised)	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (revised)	Events after the Balance Sheet Date
IAS 16 (revised)	Property, Plant and Equipment
IAS 17 (revised)	Leases
IAS 24 (revised)	Related Party Disclosures
IAS 39 (revised)	Financial Instruments: Recognition and Measurement
IAS 36 (revised)	Impairment of Assets
IAS 38 (revised)	Intangible Assets
IFRS 4	Insurance Contracts

The adoption of IAS 1, 8, 10, 16, 17 and 24, (all revised) did not result in substantial changes to the Company's accounting policies. In summary:

- IAS 8, 10, 16, 17, 38 (all revised) had no material effect on the Company's policies.
- IAS 24 (revised) has affected the identification of related parties and some other related-party disclosures.
- IAS 39 (revised) resulted in the change of the classification and measurement of investment securities.
- IFRS 4 has affected the recognition and disclosure related to insurance contracts and insurance liabilities.

There was no impact on opening retained earnings at 1 January 2004 from the adoption of any of the above-mentioned standards.

**Accounting for the effects of hyperinflation**

The restatement for the changes in the general purchasing power of the Turkish lira as of 31 December 2005 is based on IAS 29 "Financial Reporting in Hyperinflationary Economies" which requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date, and that corresponding figures for previous periods be restated in the same terms. Hyperinflation is indicated by characteristics of the economic environment

GARANTI INSURANCE A.Ş.

## NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2005

(Amounts expressed in New Turkish Lira ("YTL") in terms of the purchasing power of the YTL as at 31 December 2005)

## NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

of a country which include the following: the general population prefer to keep its wealth in non-monetary assets or in a relatively stable currency; sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period even if the period is short; interest rates, wages and prices are linked to a price index and cumulative three-year inflation rate approaching or exceeding 100%. The restatement was calculated by means of conversion factors derived from the nation-wide wholesale price index ("WPI") published by the State Institute of Statistics ("SIS"). The indices and conversion factors used to restate these financial statements during the current and prior years are given below:

<u>Dates</u>	<u>Index</u>	<u>Conversion factors</u>
31 December 2005	8785.7	1.000
31 December 2004	8403.8	1.045
31 December 2003	7382.1	1.190

The main procedures for the above-mentioned restatement are as follows:

- Financial statements prepared in the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the balance sheet date, and corresponding figures for previous periods are restated in the same terms.
- Monetary assets and liabilities, which are carried at the amounts current at the balance sheet date, are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date.
- Non-monetary assets and liabilities, which are not carried at amounts current at the balance sheet date and components of shareholders' equity are restated by applying the relevant (monthly, period average, period end) conversion factors. Additions to property and equipment in the year of acquisition are restated using the relevant conversion factors.
- Comparative financial statements are restated in terms of the measuring unit current at the currency purchasing power at the latest balance sheet date.
- All items in the statements of income are restated by applying the relevant conversion factors.
- The effect of inflation on the Company's net monetary position is included in the statements of income.

## NOTE 3 – SUMMARY OF SIGNIFICANT RELEVANT ACCOUNTING POLICIES

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the respective accounting policy disclosures.

## Changes in accounting policies

Prior to 1 January 2005, the Company deferred indirect acquisition costs as well as direct acquisition cost in line with unearned premiums. As of 31 December 2005, the Company's management decided to cease the policy of deferring indirect costs. The effect of this change in the accounting policy amounts to YTL 1,810,235 net of taxes, and has been recognized as a separate component of shareholders' equity. The change has resulted in:

	<u>1 January 2005</u>	<u>1 January 2004</u>
- increase in accumulated deficit	1,810,235	1,008,035
- decrease in the profit for the period	802,200	

## Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future cash flows are used. The adequacy of the unearned premium liability is assessed by considering the portion of the estimated value of claims and expenses, likely to arise after the end of the financial year from existing contracts, which exceeds the provision for unearned premiums after deduction of any acquisition costs. Any deficiency is immediately charged to profit or loss. The assessment, whether a deficiency exists is made at the Company level since all insurance products are regarded as being managed together and there are no constraints on the ability to use assets held in relation to each line of business to meet any of the associated liabilities.

GARANTİ INSURANCE A.Ş.

**NOTES TO FINANCIAL STATEMENTS****31 DECEMBER 2005**

(Amounts expressed in New Turkish Lira ("YTL") in terms of the purchasing power of the YTL as at 31 December 2005)

**NOTE 3 – SUMMARY OF SIGNIFICANT RELEVANT ACCOUNTING POLICIES (Continued)****Premium income**

Premium income represents premiums on policies written during the year, net of cancellations.

Unearned premiums, set aside to provide for the period of risk extending beyond the end of the financial year, are determined from premiums written during the year, less reinsurance.

**Reinsurance contracts held**

Contracts entered in to by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company, and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Reinsurance assets consist of short term balances due from reinsurers. Reinsurance liabilities primarily consist of premium payable to reinsurers.

**Claims**

Claims are recorded in the period in which they occur, based on reported claims or on the basis of estimates when not reported. The claims provision is the total estimated ultimate cost of settling all claims arising from events which have occurred up to the end of the accounting period. Full provision is made for outstanding claims, including claim settlements reported at the year-end. Incurred but not reported claims (IBNR) are also provided for under claim provisions (Note 15).

Claim recoveries are calculated based on the best estimation of the Company management and are accounted for as other income in the statement of departmental revenues.

**Provision for doubtful and overdue receivables**

The Company's management provides specific provision for doubtful receivables based on the evaluation of the receivables overdue 60 days in accordance with its credit risk policies.

A credit risk provision for receivables is established if there is objective evidence that the Company will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and recoverable amount, being the present value of expected cash flows, including the amount recoverable from guarantees and collateral, discounted based on the interest rate at inception. Management believes that no additional credit risk beyond amounts provided of additional losses is inherent in the Company's receivables.

The provision made during the period is charged against the income for the period. Receivables that cannot be recovered are written off and charged against the allowance for overdue receivables. Such receivables are written off after all necessary legal proceedings have been completed and the amount of the losses is finally determined. Recoveries of amounts previously provided for are treated as a reduction from provisions for overdue receivables for the period (Note 7).

**Property and equipment**

Property and equipment are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful life as follows:

Buildings	50 years
Furniture and fixtures and information technology equipment	4-10 years 4-5 years
Motor vehicles	5 years

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit (Note 9).

Expenses for the repair of property and equipment are charged against income. They are, however, capitalised if they result in an enlargement or substantial improvement of the respective assets.

**Finance leases**

Leases of property, plant and equipment where the Group has substantially all the risks and the rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other non-current liabilities. The interest element of the finance cost is charged to the statements of loss over the lease period. The property,

GARANTİ INSURANCE A.Ş.

## NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2005

(Amounts expressed in New Turkish Lira ("YTL") in terms of the purchasing power of the YTL as at 31 December 2005)

### NOTE 3 – SUMMARY OF SIGNIFICANT RELEVANT ACCOUNTING POLICIES (Continued)

plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term (Note 9).

#### Investments

The Company classifies its investments in to the following categories: financial assets at fair value through profit and loss, held to maturity financial assets and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

##### a) *Financial assets at fair value through income*

Financial asset is classified into this category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit taking, or if so designated by management.

##### b) *Held-to-maturity financial assets*

Held-to-maturity financial assets are non-derivative financial assets with fixed maturity where management has both the intent and the ability to hold to maturity.

##### c) *Available- for- sale financial assets*

Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, are classified as available-for-sale.

Investment securities are initially recognized at cost. Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value based on quoted bid prices. Loans and receivables and held-to-maturity securities are carried at amortized cost using the effective yield method, less any provision for impairment.

Realized and unrealized gains and losses arising from changes in the fair value of securities classified as financial assets at fair value through income are recognized in the income statement in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of securities classified as available for sale financial assets are recognized in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as net realized gains /losses on financial assets.

#### Provision for employment termination benefits

Employment termination benefits, as required by the Turkish Labour Law, are recognized in these financial statements as they are earned. The total provision represents the present value of the future probable obligation of the Company arising from the retirement of employees (Note 16).

#### Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Current enacted tax rates are used to determine deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that the future taxable profit will be available against which the temporary differences can be utilised (Note 12).

#### Related parties

For the purpose of the accompanying financial statements, shareholders, key management personnel and board members, in each case together with their families and companies controlled by or affiliated with them and associated companies are considered and referred to as related parties (Note 24).

#### Translation of foreign currencies

Transactions in foreign currencies during the year are translated into Turkish Lira at the exchange rates prevailing at the dates of the transactions. Balance sheet items denominated in foreign currencies are translated at the exchange rates prevailing at the balance sheet dates. Exchange gains and losses arising from the settlement and translation of foreign currency items are included in the related income and expense accounts, as appropriate.

GARANTİ INSURANCE A.Ş.

## NOTES TO FINANCIAL STATEMENTS

### 31 DECEMBER 2005

(Amounts expressed in New Turkish Lira ("YTL") in terms of the purchasing power of the YTL as at 31 December 2005)

**NOTE 3 – SUMMARY OF SIGNIFICANT RELEVANT ACCOUNTING POLICIES (Continued)****Fair value of financial instruments**

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

The estimated fair values of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies to the extent that relevant and reliable information is available from the financial markets in Turkey. However, judgment is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realise in a current market exchange.

The following methods and assumptions were used to estimate the fair value of the financial instruments for which it is practicable to estimate fair value:

*Monetary assets*

The fair values of balances denominated in foreign currencies, which are translated at period end exchange rates, are considered to approximate carrying values.

The fair values of certain financial assets carried at cost, including cash and cash equivalents and held to maturity investments plus the respective accrued interest are considered to approximate their respective carrying values.

The fair values of held for trading investments are determined by reference to the market values.

The fair value of premiums receivable along with related provision for overdue receivables is considered to approximate respective carrying values due to their short-term nature.

*Monetary liabilities*

The fair values of monetary liabilities are considered to approximate to their respective carrying values due to their short-term nature.

**Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and bank deposits.

	2005	2004
Cash in hand and bank deposits	93,929,172	12,561,302
	<b>93,929,172</b>	<b>12,561,302</b>

**Comparatives**

Where necessary, comparative figures have been adjusted or amended to conform with changes in presentation in the current year.

**NOTE 4 – MANAGEMENT OF INSURANCE AND FINANCIAL RISK****Insurance risk**

The risk under any one insurance contract is the possibility that the insurance event occurs and the uncertainty of the amount of the resulting claim. By the very nature of the insurance contracts, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. Company has developed its insurance underwriting strategy to type of insurance risk accepted and the claims occurred.

*Casualty Insurance Risk*

Underwriting results in motor insurance depend largely on the development of two factors: the number of claims and the average claims amount. Claims frequency and the average amount per claim, in turn, depend largely on the no-claims provisions of a given tariff system and their impact on rating.

In indemnity insurance the amount to be paid in the event of a loss results from the amount of the loss actually sustained and is limited by the sum insured as well as by the rule against unjustified enrichment (which states that the insured shall be compensated for any loss

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**NOTE 4 – MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)**

but shall not gain from such loss) in the case of insurance for a specific amount on the other hand the sum insured represents the one and only determinant and is always payable when the insured event materializes.

*Property Insurance Risk*

The various classes of property insurance incorporate by far the greatest accumulation potential throughout the entire insurance business. In principle, this is because here stationary risks are combined with the coverage of elementary hazards as well as with various other perils.

The nature of fire insurance depends very much on the specific perils insured the classical coverage of fire, lightning and explosion still being the basis of the fire insurance today. In each case, the insured is indemnified for the physical loss or damage sustained as a result of the perils included in the cover.

In property insurance sum insured, risk address, type of building and type of business of the risk are considered when pricing that risk. In the insurance of industrial risks, the Probable Maximum Loss ("PML") has also an effect in pricing. The PML of a given risk is the estimated largest probable loss arising from one event as estimated with due care and with all risk elements taken into account. It is expressed in percent of the total sum insured or in absolute amounts. PML calculation for property insurance is done by Company's Risk Assessment Department. PML estimates also are of considerable practical significance for fixing retentions in property insurance.

*Health Insurance Risk*

Insurance products issued by the Company, are generally used to be designed competitive and marketable products to reach a large portfolio that will minimize the variability of the risks.

One of the most important tool for mitigating risks in health contracts is underwriting. The aim of making underwriting is to avoid as much as possible from the predictable insurance risks and also from the anti-selection effect.

For the health products the underwriting starts with the examination of the declarations on the Policy Proposal Form. At the end of this examination done by the authorized risk assessment doctors of the Company, the insurance can be rejected or can be arranged with applying sur-premium and/or exemption for the current/potential disorders. To early identify and avoid the risks not declared in the Policy Proposal Form due to fraudulent intention or because the insured is not aware of them, a second underwriting is done at the end of the first policy year. According to the second underwriting results, the policy may not be renewed due to high risks, or may be renewed with sur-premium and/or exemptions. A third underwriting is applied to a health policy at the end of its fourth policy year, to determine if the policy could be renewed, could obtain the lifetime renewal guarantee and if this is the case in which conditions and restrictions. The underwriting procedure gives the opportunity to the Company to eliminate the predictable potential future claims and benefit payments that is crucial to reduce the uncertainty of the future cash flows of the Company.

The concentration of insurance risk in relation to the branches is summarized below:

	<b>2005 YTL</b>
Fire	32,216,924,219
Engineering	7,673,618,483
Personal Accident	12,234,387,972
Marine	23,458,311,168
Accident	40,500,353,709
Health	13,710,090
Agriculture	559,219
Legal Protection	1,951,041,081
	<hr/> 118,048,905,941 <hr/>

**Foreign exchange rate risk**

The Company is exposed to foreign exchange rate risk through the impact of rate changes at the translation of Turkish lira pertaining to foreign currency denominated assets and liabilities. These risks are monitored and limited by the analysis of the foreign currency position.

**Credit risk**

Ownership of financial assets involves the risk that counterparts may be unable to meet the terms of their agreements. These risks are monitored by the management by limiting the aggregate risk to any individual counterpart and covered by collaterals if deemed necessary.

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## NOTES TO FINANCIAL STATEMENTS

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(Amounts expressed in New Turkish Lira ("YTL") in terms of the purchasing power of the YTL as at 31 December 2005)

## NOTE 4 – MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

## Interest rate risk

The Company is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. These exposures are managed by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities.

## NOTE 5 - CASH AND CASH EQUIVALENTS

	2005	2004
Cash in hand	57,837	36,207
Bank deposits	89,916,452	12,525,095
Other cash equivalents	3,954,883	-
	<b>93,929,172</b>	<b>12,561,302</b>

Bank deposits is further analysed as follows:

Foreign currency denominated bank deposits		
- demand deposits	268,369	122,469
- time deposits	10,549,904	5,462,789
Bank deposits in New Turkish lira		
- demand deposits	342,424	426,392
- time deposits	78,755,755	6,513,445
	<b>89,916,452</b>	<b>12,525,095</b>

The Company has YTL 7,078,130 blocked bank deposits in favour of Undersecretariat of Treasury at 31 December 2005 (2004:YTL 245,852) (Note 22)

Foreign currency denominated time deposits were as follows:

	Amount in original currency		YTL equivalent	
	2005	2004	2005	2004
US\$	4,745,000	1,265,000	6,366,841	1,774,917
EUR	2,635,000	1,931,000	4,183,063	3,687,872
			<b>10,549,904</b>	<b>5,462,789</b>

Time deposits have maturity less than one year and their interest rates are as follows :

	Interest rate per annum (%)	
	2005	2004
TL	13-19	18-25
US\$	0.75-3.5	0.75-4
EUR	1.5-3.5	1.5-3.5

Foreign currency denominated demand deposits are analysed as follows:

	Amount in original currency		YTL equivalent	
	2005	2004	2005	2004
US\$	115,522	13,477	155,007	18,910
EUR	68,826	48,621	109,262	92,857
GBP	676	3,796	1,564	10,223
CHF	1,172	367	1,194	454
Other	117,748	-	1,342	25
			<b>268,369</b>	<b>122,469</b>

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## NOTES TO FINANCIAL STATEMENTS

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## NOTE 6 – FINANCIAL ASSETS

## Financial assets at fair value through income

	2005	2004
A-type mutual funds	-	-
B-type mutual funds	-	138,651
Treasury bills	-	14,530,212
Government bonds	-	1,863,345
Eurobonds	-	267,142
Government bonds (Foreign currency)	-	831,818
	-	<b>17,631,168</b>

## Held-to-maturity financial assets

Treasury bills	202,977	200,892
	<b>202,977</b>	<b>200,892</b>

The fair value of the held-to-maturity financial asset amounts to YTL 239,917 at 31 December 2005.

## Available-for-sale financial assets

Government bonds	6,957,935	2,045,934
Treasury bills	-	23,725,636
	<b>6,957,935</b>	<b>25,771,570</b>

At 31 December 2005, the Company has YTL 7,160,912 blocked marketable securities (2004: YTL 10,880,921) in favour of the Undersecretariat of Treasury (Note 22).

Foreign currency denominated government bonds are as follows:

	Amount in original currency		YTL equivalent	
	2005	2004	2005	2004
US\$	-	30,902	-	43,061
EUR	-	377,955	-	788,757
			-	<b>831,818</b>

The analysis of the securities portfolio by maturity is as follows:

	2005						Total
	Demand	1-3 months	3-6 months	6-12 months	1-5 years	Longer than 5 years	
B-type mutual funds	-	-	-	-	-	-	-
A-type mutual funds	-	-	-	-	-	-	-
Government bonds	-	-	2,416,737	4,541,198	-	-	6,957,935
Treasury bills	-	-	202,977	-	-	-	202,977
Eurobonds	-	-	-	-	-	-	-
Government bonds (Foreign currency)	-	-	-	-	-	-	-
	-	-	<b>2,619,714</b>	<b>4,541,198</b>	-	-	<b>7,160,912</b>

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## NOTES TO FINANCIAL STATEMENTS

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## NOTE 6 – FINANCIAL ASSETS (Continued)

	2005						Total
	Demand	1-3 months	3-6 months	6-12 months	1-5 years	Longer than 5 years	
B-type mutual funds	138,650	-	-	-	-	-	138,650
A-type mutual funds	-	-	-	-	-	-	-
Government bonds	-	-	2,045,934	1,863,345	-	-	3,909,279
Treasury bills	-	-	1,727,491	18,592,045	18,137,205	-	38,456,740
Eurobonds	-	-	-	-	267,142	-	267,142
Government bonds (Foreign currency)	-	-	-	831,818	-	-	831,818
	<b>138,650</b>	<b>-</b>	<b>3,773,425</b>	<b>21,287,208</b>	<b>18,404,347</b>	<b>-</b>	<b>43,603,630</b>

## NOTE 7 - PREMIUMS RECEIVABLE

	2005	2004
Agencies and policyholders	70,562,346	66,062,426
Doubtful receivables	9,759,973	6,476,603
	<b>80,322,319</b>	<b>72,539,029</b>
Provision for doubtful and overdue receivables	10,940,369	(7,661,250)
	<b>69,381,950</b>	<b>64,877,779</b>

According to the Regulations for Establishment and Operations of Insurance and Reinsurance Companies, published in the Official Gazette dated 26 December 1994, No: 22153, insurance companies are obliged to make a provision for two months overdue receivables from agencies and policyholders. This provision amounts to YTL 1,180,397 as at 31 December 2005 (2004:YTL 1,540,732 ). At 31 December 2005, the provision for overdue and doubtful receivables includes YTL 9,759,973 (2004:YTL 6,120,234) premiums receivable under legal follow up including the subrogation receivables.

According to Turkish insurance regulations real and legal entities which will act as agents, are required to provide collateral as a guarantee before beginning their operations. For real entity agents the amount of collateral is determined as YTL 250. Additionally in compliance with the Insurance Supervisory Office's opinion, notes and cheques received from agencies and policyholders cannot be debited to the current accounts until they have been cashed out. At 31 December 2005, the Company has cheques and notes receivables charged to credit cards amounting to YTL 3,954,883 (2004:YTL 4,681,773).

Guarantees obtained against agency receivables are as follows:

	2005	2004
Bank letters of guarantee	1,245,500	421,054
Cheques and notes receivable	298,635	208,175
Mortgages	226,900	268,576
Treasury bills and government bonds	10,000	12,442
Cash	27,727	28,727
	<b>1,808,762</b>	<b>938,974</b>

## NOTE 8 - OTHER ASSETS

	2005	2004
Subrogation receivables	1,249,721	961,730
Deposits and advances given	118,375	144,808
Prepaid expenses	53,647	12,039
Other	42,727	170,343
Stationary	33,772	44,886
Reinsurance reconciliation differences	-	5,913,463
	<b>1,498,241</b>	<b>7,247,271</b>

GARANTI INSURANCE A.Ş.

## NOTES TO FINANCIAL STATEMENTS

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## NOTE 9 - PROPERTY AND EQUIPMENT

	1 January 2005	Additions	Disposalsg	31 December 2005
<b>Cost</b>				
Buildings	11,489,435	185,066	-	11,674,501
Motor vehicles	1,262,426	108,601	(28,068)	1,342,959
Furniture and fixtures and information technology equipment	7,645,900	1,129,207	(31,079)	8,744,028
	<b>20,397,761</b>	<b>1,422,874</b>	<b>(59,147)</b>	<b>21,761,488</b>
<b>Accumulated depreciation</b>				
Buildings	(966,215)	(366,184)	-	(1,332,399)
Motor vehicles	(1,085,846)	(133,287)	27,501	(1,191,632)
Furniture and fixtures and information technology equipment	(5,472,617)	(1,223,213)	12,680	(6,683,150)
	<b>(7,524,678)</b>	<b>(1,722,684)</b>	<b>40,181</b>	<b>(9,207,181)</b>
<b>Net book value</b>	<b>12,873,083</b>			<b>12,554,307</b>

Mortgage over buildings, provided to the Undersecretariat of Treasury, amounts to YTL 12,120,000 (2004:YTL 4,732,640) (Note 22).

The valuation of Company's building has been carried out by independent professional valuers, namely Colliers Resco International Property Consultants. The fair value of the building is assumed to be USD 7,500,000 and the carrying value of the building is adjusted accordingly to reflect the impairment loss in 2004.

## Finance leases

The Company has finance lease agreements with Garanti Finansal Kiralama A.Ş. for the lease of vehicles and furniture and fixtures. The details of the lease agreements made are as follows:

	2005		2004	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Furniture and fixtures	1,543,875	1,142,963	1,543,875	842,274
Motor vehicles	548,198	526,825	548,198	408,781
	<b>2,092,073</b>	<b>1,669,788</b>	<b>2,092,073</b>	<b>1,251,055</b>

The depreciation charge on the leased assets amounts to YTL 418,732 (2004:YTL 446,414).

The obligations under finance lease agreements at 31 December 2005 amount to YTL 605 (2004: YTL3,129).

Lease obligations may be analysed as follows:

	2005	2004
Up to 1 year	605	2,497
1-5 years	-	632
	<b>605</b>	<b>3,129</b>

GARANTİ INSURANCE A.Ş.

## NOTES TO FINANCIAL STATEMENTS

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## NOTE 10 - INTANGIBLE ASSETS

	1 January 2005	Additions	Disposals	31 December 2005
<b>Cost</b>				
Softwares	1,247,049	416,543	-	1,663,592
	<b>1,247,049</b>	<b>416,543</b>	-	<b>1,663,592</b>
<b>Accumulated amortisation</b>				
Softwares	(132,465)	(50,132)	-	(182,597)
	<b>(132,465)</b>	<b>(50,132)</b>	-	<b>(182,597)</b>
<b>Net book value</b>	<b>1,114,584</b>			<b>1,480,995</b>

## NOTE 11 - AVAILABLE-FOR-SALE EQUITY SECURITIES

	2005	Share %	2004	Share %
Garanti Emeklilik A.Ş.	43,515	0.21	43,515	0.21
Doğuş Hizmet Yönetimi A.Ş.	553	1	553	1
Humanitas Doğuş İnsan Gücü Yönetimi A.Ş.	-	-	11,766	1
Tarsim	93,750	6.25	-	-
	<b>137,818</b>		<b>55,834</b>	

## NOTE 12 - TAXATION

	2005	2004
Corporation and income taxes currently payable	8,971,124	3,163,172
Less: Prepaid taxes	(6,888,805)	(2,081,258)
<b>Total taxes payable</b>	<b>2,082,319</b>	<b>1,081,914</b>

Corporation tax is payable at a rate of 30% on the total income of the Company after adjusting for certain disallowable expenses, exempt income and investment and other allowances. No further tax is payable unless the profit is distributed.

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 10%. An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

Corporations are required to pay advance corporation tax quarterly at the rate of 30% on their corporate income. Advance tax is payable by the 17th of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or used to set off against other liabilities to the government.

Capital gains derived from the sale of equity investments and immovable properties are tax exempt, if such gains are added to paid-in capital by the end of the second year following their sale.

Capital expenditures, with some exceptions, over YTL10 thousand (YTL6 thousand for 2004) are eligible for investment incentive allowance of 40%, which is deductible from taxable income prior to calculation of the corporate income tax, without the requirement of an investment incentive certificate, and the amount of allowance is not subject to withholding tax.

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to 5 years. Tax losses cannot be carried back to offset profits from previous periods.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Corporations file their tax returns within the 15th of the fourth month following the close of the financial year to which they relate. Tax returns are open for 5 years from the

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## NOTES TO FINANCIAL STATEMENTS

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## NOTE 12 - TAXATION (Continued)

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.

The taxation on income for the years ended 31 December 2005 and 2004, expressed in terms of the purchasing power of the Turkish lira at 31 December 2005, is summarised as follows:

	2005	2004
Provision for taxes per accompanying statements of income		
- Current	9,079,622	3,314,490
- Deferred tax (benefit)/charge	(507,943)	(1,482,623)
	<b>8,571,679</b>	<b>1,831,867</b>

The tax charge for the Company may be reconciled as follows:

	2005	2004
Historical income before taxation per financial statements not restated	24,773,743	10,063,126
Deductible income on		
Unearned premiums reserve	(953,393)	(2,644,447)
Dividend income	-	(6,897)
Disallowable expenses	509,794	262,672
Provision for doubtful and overdue receivables	5,021,510	5,989,040
Provision for employment termination benefits	165,779	253,035
Other deductions	-	(2,729,588)
Taxable income on marketable securities	(875,025)	914,794
Equalization reserve	6,218,567	3,395,647
Decrease in provision for doubtful and overdue receivables	(4,957,228)	(5,912,011)
Taxable income according to Turkish tax legislation	29,903,747	9,585,371
Corporate tax at 30% (2004: 33%)	8,971,124	3,163,172
Income tax and withholding tax per statutory historical financial statements	8,971,124	3,163,172
Inflation adjustment	108,498	151,318
<b>Taxation on current year profit</b>	<b>9,079,622</b>	<b>3,314,490</b>

## Deferred taxes

Deferred income taxes are calculated on temporary differences that are expected to be realised or settled based on the taxable income in fiscal year 2005 under the liability method using a principal tax rate of 30% at 31 December 2005.

The temporary differences giving rise to the deferred tax assets and deferred tax liabilities are as follows:

	Cumulative temporary differences		Deferred tax assets/(liabilities)	
	2005	2004	2005	2004
<b>Deferred tax liabilities</b>				
Deferred commission expense	14,769,207	7,459,348	(4,430,762)	(2,237,804)
Difference between the tax base and carrying amount of trading and investment securities	16,081	63,488	(4,824)	(19,046)
			<b>(4,435,586)</b>	<b>(2,256,850)</b>

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## NOTES TO FINANCIAL STATEMENTS

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(Amounts expressed in New Turkish Lira ("YTL") in terms of the purchasing power of the YTL as at 31 December 2005)

## NOTE 12 - TAXATION (Continued)

## Deferred tax assets

Reserve for unearned premiums, net	15,892,945	10,171,419	4,767,884	3,051,426
Deferred commission income	13,860,261	9,547,884	4,158,078	2,864,366
Provision for doubtful and overdue receivables	1,180,397	1,540,732	354,119	462,220
Leasing obligations	605	3,128	182	939
Employment termination benefits	406,706	419,389	122,012	125,817
Net difference between the tax base and carrying amount of property and equipment and intangible assets	1,153,624	1,856,391	346,088	556,916
			<b>9,748,363</b>	<b>7,061,684</b>
<b>Deferred tax assets, net</b>			<b>5,312,777</b>	<b>4,804,834</b>

The movement on the deferred tax account is as follows:

	2005	2004
At the beginning of the year	4,804,834	2,825,718
Deferred tax credit/(charge) for the year	507,943	1,979,116
<b>At the end of the year</b>	<b>5,312,777</b>	<b>4,804,834</b>

## NOTE 13 - AMOUNTS DUE FROM/TO INSURANCE AND REINSURANCE COMPANIES

	2005	2004
<b>Due from insurance and reinsurance companies</b>		
Milli Reasürans T.A.Ş.	771,304	-
Swiss Reinsurance Company Co.	570,027	-
Destek Reasürans T.A.Ş.	552,659	-
Scor Re Co.	337,213	-
Gerling Globale Rückversicherungs A.G.	-	509,529
Scor Reinsurance	-	504,360
Yapı Kredi Sigorta A.Ş.	-	417,713
Aon Group Ltd.	-	359,572
AIG America	-	258,389
Partner Re	-	232,997
Other	609,540	552,956
	<b>2,840,743</b>	<b>2,835,516</b>
<b>Due to insurance and reinsurance companies</b>		
Willis Faber & Dumas Ltd. Co.	12,121,544	1,887,872
Milli Reasürans T.A.Ş.	6,398,444	2,723,761
Coface Re	3,000,150	1,739,415
Münchener Rückversicherungs A.G.	2,557,675	4,530,978
Insurance Brokerage Service	1,362,457	164,358
Aviva Sigorta Anonim Şirketi	1,327,539	821,044
Swiss Reinsurance Company Co.	1,052,834	-
Marsh Sigorta ve Reasürans Brokerleği A.Ş.	1,030,980	10,758,279
Odyssey Re	-	432,726
Robert Fleming	-	394,400
Endurance Re	-	387,803
Other	7,122,413	7,181,342
	<b>35,974,036</b>	<b>31,021,978</b>

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## NOTES TO FINANCIAL STATEMENTS

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## NOTE 14 - OTHER LIABILITIES

	2005	2004
Taxes and funds payable	1,508,314	1,411,777
Payable to personnel	702,895	-
Payable to suppliers	308,840	1,330,732
Due to related parties (Note 24)	127,519	262,127
Other	21,887	1,124,650
	<hr/>	<hr/>
Reinsurance reconciliation differences	-	6,943,942
	<b>2,669,455</b>	<b>11,073,228</b>

## NOTE 15 - INSURANCE LIABILITIES AND REINSURANCE ASSETS

## 15.1 Insurance Liabilities and Reinsurance Assets

	2005	2004
Reserve for unearned premiums	151,045,873	94,595,183
Reserve for unearned premiums, reinsurers' share (-)	(88,646,805)	(51,317,512)
	<hr/>	<hr/>
	<b>62,399,068</b>	<b>43,277,671</b>
	<hr/>	<hr/>
Deferred commission income	13,860,261	9,547,884
	<hr/>	<hr/>
	<b>13,860,261</b>	<b>9,547,884</b>
	<hr/>	<hr/>
Claims provision	69,666,070	58,752,487
Claims provision, reinsurers' share (-)	(45,869,516)	(44,219,106)
	<hr/>	<hr/>
	<b>23,796,554</b>	<b>14,533,381</b>

## 15.2 Assumptions, Change in Assumptions and Sensitivity

The Company does not issue unlimited insurance contracts and does not carry risks with uncertainty. Accordingly there is no use of assumptions for related exposures. But the insurer sets provision for claims in respect of losses which have been incurred by the insured during the period of cover but which have not yet been settled. Those outstanding case reserves are updated periodically for currency, estimation and expense changes.

The risks associated with the assumptions in the insurance products are the potential errors in the projection of the future premium income and the claims costs. Company, predicts premiums and claims costs by considering some internal and external factors. As the basis for estimating the future trends, the following factors are taken into consideration:

Internal Factors:

- historical development trends of the portfolio
- new designed products
- new added benefits to the insurance scope
- assumptions on the administration expenses of the branch

External Factors:

- Changes in the contract conditions with network organizations
- Changes in the portfolio structure due to the competition effects

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## NOTE 15 - INSURANCE LIABILITIES AND REINSURANCE ASSETS (Continued)

## 15.3 Movements in insurance liabilities and reinsurance assets

(a) Claims and loss adjustment expenses:

	Gross	2005 Reinsurance	Net
At the beginning of the year	58,752,487	(44,219,107)	14,533,381
Cash paid for claims settled in the year	(101,254,730)	54,581,127	(46,673,603)
Increase in liabilities	119,691,153	(63,875,350)	55,815,803
Monetary gain/(loss)	(7,522,841)	7,643,814	120,973
<b>Total at the end of the year</b>	<b>69,666,070</b>	<b>(45,869,516)</b>	<b>23,796,554</b>
Notified claims Incurred but not reported			23,174,047 622,507
<b>Total at the end of the year</b>	<b>69,666,070</b>	<b>(45,869,516)</b>	<b>23,796,554</b>

	Gross	2004 Reinsurance	Net
At the beginning of the year	40,159,757	(28,696,551)	11,463,206
Cash paid for claims settled in the year	(83,240,766)	52,573,884	(30,666,882)
Increase in liabilities	105,796,264	(71,243,382)	34,552,882
Monetary gain/(loss)	(3,962,767)	3,146,942	(815,825)
<b>Total at the end of the year</b>	<b>58,752,487</b>	<b>(44,219,107)</b>	<b>14,533,381</b>
Notified claims Incurred but not reported			14,086,495 446,885
<b>Total at the end of the year</b>	<b>58,752,487</b>	<b>(44,219,107)</b>	<b>14,533,381</b>

(b) Provision for unearned premiums:

	Gross	2005 Reinsurance	Net
Reserve for unearned premiums beginning of the year	94,595,183	(51,317,512)	43,277,671
Net change in reserve for unearned premiums	56,450,691	(37,329,294)	19,121,397
<b>Total at the end of the year</b>	<b>151,045,874</b>	<b>(88,646,806)</b>	<b>62,399,068</b>

	Gross	2004 Reinsurance	Net
Reserve for unearned premiums beginning of the year	69,525,546	(39,141,684)	30,383,862
Net change in reserve for unearned premiums	25,069,637	(12,175,828)	12,893,809
<b>Total at the end of the year</b>	<b>94,595,183</b>	<b>(51,317,512)</b>	<b>43,277,671</b>

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## NOTE 16 - PROVISION FOR EMPLOYMENT TERMINATION BENEFITS

Under Turkish Labour Law, the Company is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men). Since the legislation was changed on 8 September 1999 there are certain transitional provisions relating to length of service prior to retirement.

The amount payable consists of one month's salary limited to a maximum of YTL 1,727.15 for each year of service as of 31 December 2005 (31 December 2004: YTL 1,574.74). The liability is not funded, as there is no funding requirement.

The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees.

International Accounting Standards require actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly the following actuarial assumptions were used in the calculation of the total liability:

	2005	2004
Discount rate	5.49 %	5.45 %
Turnover rate to estimate the probability of retirement	87 %	98 %

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. As the maximum liability is revised semi-annually, the maximum amount of YTL 1,770.62 (1 January 2004: YTL 1,648.90) which is effective from 1 January 2005, has been taken into consideration in calculating the provision for employment termination benefits of the Company.

Movements in the reserve for employment termination benefits during the year are as follows:

	2005	2004
Balance at 1 January	419,389	436,682
Charge for the period	5,801	40,752
Monetary gain	(18,484)	(58,045)
<b>Balance at 31 December</b>	<b>406,706</b>	<b>419,389</b>

## NOTE 17 - SHARE CAPITAL

Nominal capital of the Company at 31 December 2005 is YTL 35,000,000 (2004: YTL 25,000,000) and is held as follows:

	2005		
	Shareholding %	Number of shares	YTL
Türkiye Garanti Bankası A.Ş.	99.999982	3,499,999,995	34,999,999
Other	0.000018	5	1
	<b>100</b>	<b>3,500,000,000</b>	<b>35,000,000</b>
	2004		
	Shareholding %	Number of shares	YTL
Türkiye Garanti Bankası A.Ş.	99.999982	24,999,995,500	24,999,995
Other	0.000018	4,500	5
	<b>100</b>	<b>25,000,000,000</b>	<b>25,000,000</b>

At 31 December 2005, the restated capital of the Company amounts to YTL 89,351,873 (2004: YTL 84,212,026).

Adjustment to share capital represents the restatement effect of cash contribution to share capital at year-end equivalent purchasing power.

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## NOTE 18 - RETAINED EARNINGS AND LEGAL RESERVES

	2005	2004
First legal reserve	673,038	480,044
Second legal reserve	374,522	391,543
	<b>1,047,560</b>	<b>871,587</b>

Retained earnings as per the statutory financial statements, other than legal reserves, are available for distribution subject to the legal reserve requirement referred to below.

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code (TCC). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% p.a., until the total reserve reaches 20% of the company's paid-in share capital. The second legal reserve is appropriated at the rate of 10% p.a. of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

Dividend distributions are made by the Company in Turkish lira in accordance with its Articles of Association, after deducting taxes and setting aside the legal reserves as discussed above.

The Company accounts for earthquake claims provision in its statutory financial statements. The determined portion of the net retained premiums is specified by the Insurance Supervisory Law for fire and engineering branches against earthquake risks. The earthquake claims provision can only be used for the payment of earthquake claims. At 31 December 2005, the earthquake claims provision in the statutory financial statements of the Company amounts to YTL19,067,538 (2004: YTL 12,803,221).

## NOTE 19 - GENERAL AND ADMINISTRATIVE EXPENSES

	2005	2004
Personnel salaries and bonus	16,325,592	8,783,864
Depreciation and amortization	1,772,816	1,487,047
Advertising expenses	1,020,212	1,362,745
Travel expenses	909,079	1,148,518
Information technology expenses	817,702	502,040
Taxes and dues	496,753	289,492
Communication expenses	400,915	513,975
Audit and consultancy expenses	245,635	246,420
Electricity, water and heating expenses	215,778	214,999
Rent expense	213,949	178,176
Stationary expenses	111,442	94,345
Other	3,730,246	7,043,958
	<b>26,260,119</b>	<b>21,865,579</b>

## NOTE 20 - OTHER INCOME (IN DEPARTMENTAL REVENUES)

	2005	2004
Subrogation income-net of reinsurers'share	4,078,084	6,393,160
Other	19,258	8,639
	<b>4,097,342</b>	<b>6,401,799</b>

## NOTE 21 - OTHER EXPENSES (IN DEPARTMENTAL REVENUES)

Non-Life Insurance Business

	2005	2004
Provision expense for claim recoveries	3,695,471	6,194,823
Credit card commission expenses	1,663,947	251,314
Turksis Service Systems	301,684	514,332
MedNet expenses	105,922	159,136
Interest expense accrual on premium reserves	-	186,117
Interpartner expenses	-	127,528
Other	394,941	257,018
	<b>6,161,965</b>	<b>7,690,268</b>

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**NOTE 22 - SECURITY FOR POLICYHOLDERS**

In order to protect the interests of policyholders, under Insurance Supervision Law 7397, insurance companies are obliged to deposit securities within two months in a blocked account with a state bank, and to mortgage fixed assets in favour of the Undersecretariat of Treasury.

Accordingly, the following guarantees have been issued to the Undersecretariat of Treasury:

	2005	2004
Blocked bank deposits (Note 5)	7,078,130	245,852
Mortgage over buildings (Note 9)	12,120,000	4,732,640
Blocked securities (Note 6)	7,160,912	10,880,921

**NOTE 23 - CASH GENERATED FROM OPERATIONS**

	2005	Restated 2004
<b>Net income</b>	<b>16,341,037</b>	<b>4,371,592</b>
<b>Adjustments for:</b>		
Taxes on income	8,571,679	1,831,867
Depreciation and amortisation charges (Notes 9 and 10)	1,772,816	1,489,280
(Gain)/loss on sale of property and equipment	(13,562)	441
Impairment on property and equipment	-	4,354,632
Interest income	(12,841,163)	(11,115,973)
Interest expense	-	95
Change in provision for doubtful and overdue receivables	(1,386,769)	(6,275,538)
Claims provision	9,263,173	4,006,178
Deferred commission expense	(7,309,860)	1,227,831
Reserve for unearned premiums	19,121,397	12,893,809
Deferred commission income	4,312,377	(219,193)
Provision for employment termination benefits (Note 16)	5,801	40,752
Inflation effect on operating activities	1,210,934	4,072,725
	<b>39,047,860</b>	<b>16,678,498</b>
<b>Changes in working capital:</b>		
Premiums receivable	(5,937,815)	(939,164)
Other receivables	5,433,971	(1,308,619)
Due to insurance and reinsurance companies	6,172,173	2,183,497
Premium reserves	(92,163)	(301,855)
Other liabilities	(7,922,391)	489,051
Inflation effect on operating activities	1,424,558	(2,192,167)
<b>Cash generated/(used in) from operations</b>	<b>38,126,193</b>	<b>14,609,241</b>

In the cash flow statements, proceeds from sale of property and equipment comprise:

	2005	2004
Net book value (Note 9)	18,966	1,377
Gain/(loss) on sale of property and equipment	13,562	(441)
	<b>32,528</b>	<b>936</b>

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## NOTE 24 - RELATED PARTY TRANSACTIONS AND BALANCES

Balances and transactions with related parties are as follows:

	2005	2004
<u>Bank deposits</u>		
Türkiye Garanti Bankası A.Ş.		
Deposits in Turkish lira		
-time deposits	56,030,219	6,466,270
-demand deposits	164,135	111,299
	<b>56,194,354</b>	<b>6,577,569</b>
<u>Foreign currency denominated deposits</u>		
-time deposits	10,549,904	5,462,789
-demand deposits	68,784	28,274
	<b>10,618,688</b>	<b>5,491,063</b>

Deposits in foreign currency are as follows :

	Amount in original currency		YTL equivalent	
	2005	2004	2005	2004
<u>Original currency</u>				
US\$	4,774,516	1,271,292	6,406,446	1,783,746
EUR	2,650,822	1,935,600	4,208,179	3,696,658
CHF	1,172	367	1,194	455
GBP	660	3,779	1,527	10,181
JPY	117,748	1,803	1,342	23
			<b>10,618,688</b>	<b>5,491,063</b>

Net interest income with respect to the transactions made with Türkiye Garanti Bankası A.Ş. amounts to YTL 2,905,506 at 31 December 2005 (2004: YTL 733,499).

Premiums receivable (\*)

	2005	2004
Türkiye Garanti Bankası A.Ş.	21,831,553	29,227,897
Doğuş Sigorta A.Ş.	2,420,949	2,015,147
Garanti Finansal Kiralama A.Ş.	3,213,530	999,946
Other	1,357,119	1,215,323
	<b>28,823,151</b>	<b>33,458,313</b>

(\*) Included in the premiums receivable in the balance sheet.

Premiums written

	2005	2004
Türkiye Garanti Bankası A.Ş.	128,129,082	108,259,406
Doğuş Sigorta A.Ş.	-	15,829,013
Garanti Finansal Kiralama A.Ş.	-	5,366,512
	<b>128,129,082</b>	<b>129,454,931</b>

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## NOTE 24 - RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

Türkiye Garanti Bankası A.Ş., the shareholder of the Company and the other related parties provide insurance intermediary services as an agency of the Company.

Other receivables

	2005	2004
Türkiye Garanti Bankası A.Ş.	521,838	-
Doğuş Sigorta A.Ş.	126,284	-
Garanti Finansal Kiralama A.Ş.	2,489	-
Other	36,989	-
Garanti Emeklilik A.Ş.	-	38,639
	<b>687,600</b>	<b>38,639</b>

Other liabilities

	2005	2004
Türkiye Garanti Bankası A.Ş.	121,758	14,110
Doğuş Sigorta ve Aracılık Hizmetleri	3,255	-
Garanti Finansal Kiralama A.Ş.	2,423	-
VDF Sigorta Aracılık Hizmetleri A.Ş.	83	-
Garanti Bilişim Teknolojisi ve Tic. A.Ş.	-	171,694
Doğuş Holding A.Ş.	-	8,784
VDF Otomotiv Servis	-	67,539
	<b>127,519</b>	<b>262,127</b>

Commissions paid

	2005	2004
Türkiye Garanti Bankası A.Ş.	17,362,574	15,383,980
Doğuş Sigorta A.Ş.	-	1,354,003
Garanti Finansal Kiralama A.Ş.	-	821,991
	<b>17,362,574</b>	<b>17,559,974</b>

## NOTE 25 - FOREIGN CURRENCY POSITION

The assets and liabilities denominated in foreign currencies are as follows:

	2005	2004
Assets	45,566,098	30,337,534
Liabilities	(33,154,406)	(17,168,441)
	<b>12,411,692</b>	<b>13,169,093</b>

	2005 Original amounts	2004 Original amounts
Cash and cash equivalents		
EUR	2,719,401	1,979,621
USD	4,866,188	1,278,477
GBP	676	3,796
CHF	3,412	367
JPY	117,748	1,803

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**NOTE 25 - FOREIGN CURRENCY POSITION (Continued)**

	2005 Original amounts	2004 Original amounts
Short-term receivables (1)		
EUR	6,599,979	2,045,731
USD	17,594,736	2,944,936
GBP	63,746	21,307
CHF	670	-
NOK	150	-
JPY	42,199,669	719,712,399

(1) Include agency and policyholder receivables, due from insurance and reinsurance companies and other assets.

## Short-term payables (2)

EUR	5,401,638	1,790,581
USD	17,918,950	3,228,774
GBP	198,299	-
JPY	1,818,939	682,855,380
CHF	55,394	-

(2) Include balances due to reinsurance companies, outstanding claim provisions and other liabilities.

**NOTE 26 - SUBSEQUENT EVENTS**

- a) The employment termination benefits ceiling has increased from YTL 1,727.15 to YTL 1,770.62 as at 1 January 2006.
- b) The corporate tax rate for the year 2005 earnings is 30%. However according to the "Draft Legislation of Corporate Tax" corporate tax rate is anticipated to be decreased to 20% for the tax period starting from 1 January 2006. If the mentioned draft Law will be enacted without amendment, the corporate tax rate will be 20% for the tax period starting from 1 January 2006.
- c) Starting from 1 January 2006 the Company decided to discontinue the application of inflation accounting by concluding that the Turkish economy ceased to be hyperinflationary, through considering the resolutions reached by governmental authorities, agencies and through the opinion of IASB which states that such a decision could be best made by the economic actors operating in the Turkish economy and as a reference, the Ministry of Finance, Treasury and the Capital Markets Board, who are the major regulatory authorities in the Turkish economy, have declared that the Turkish economy has ceased to be defined as hyperinflationary and that the application of inflation accounting should be discontinued in the statutory financial statements.

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