

**GARANTİ EMEKLİLİK VE HAYAT
ANONİM ŞİRKETİ**

FINANCIAL STATEMENTS FOR
THE YEAR ENDED
31 DECEMBER 2012

*Translated into English from
The Original Turkish Report*

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Garanti Emeklilik ve Hayat A.Ş.

1. We have audited the accompanying financial statements of Garanti Emeklilik ve Hayat Anonim Şirketi ("the Company") which comprise the balance sheet as at 31 December 2012, and statement of income, statement of changes in equity and statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2. Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable accounting principles and standards issued based on insurance laws and regulations. This responsibility includes; designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with standards on auditing issued based on insurance laws and regulations. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Independent Auditor's Opinion

4. In our opinion, the accompanying financial statements give a true and fair view of the financial position of Garanti Emeklilik ve Hayat Anonim Şirketi as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with the applicable accounting principles and standards issued (Note 2), based on insurance laws and regulations.



Additional paragraph for the English translation:

5. The effect of the differences between the accounting principles summarized in Note 2 and the accounting principles generally accepted in countries in which the accompanying financial statements are to be distributed and International Financial Reporting Standards (IFRS) have not been quantified and reflected in the accompanying financial statements. The accounting principles used in the preparation of the accompanying financial statements differ materially from IFRS. Accordingly, the accompanying financial statements are not intended to present the Company's financial position and results of its operations in accordance with accounting principles generally accepted in such countries of users of the financial statements and IFRS.

İstanbul, 26 February 2013

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**








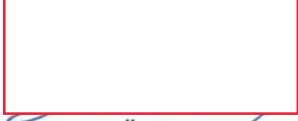

Müjde Şehsuvaroğlu
Partner

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

**THE FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2012**

We assure you that our financial report and the related disclosures and notes prepared in accordance with the requirements set out by Republic of Turkey Prime Ministry Undersecretariat of the Treasury are in compliance with the provisions of the Decree on “Financial Reporting of Insurance and Reinsurance Companies and Pension Funds” and our Company’s accounting records.

İstanbul, 26 February 2013

 <u>Cemal ONARAN</u> Member of the Board of Directors, General Manager	 <u>Ali met KARAMAN</u> Executive Vice President	 <u>Salih İLERİ</u> Financial Affairs Unit Manager
		
 <u>Osman TURGUT</u> Statutory Auditor	 <u>Emre ÖZBEK</u> Statutory Auditor	 <u>Didem Sayım</u> Actuary

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

BALANCE SHEET AS OF 31 DECEMBER 2012

(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

ASSETS			
I- Current Assets	Note	Audited Current Period 31 December 2012	Audited Prior Period 31 December 2011
A- Cash and Cash Equivalents	14	672.137.008	500.187.457
1- Cash	14	48	48
2- Cheques Received		-	-
3- Banks	14	620.450.633	493.220.364
4- Cheques Given and Payment Orders (-)		-	-
5- Bank Guaranteed Credit Card Receivables (Less than 3 months)		51.686.327	6.967.045
6- Other Cash and Cash Equivalents	14,45	-	-
B- Financial Assets and Investments with Risks on Policy Holders	11	82.938.137	56.264.640
1- Financial Assets Available for Sale	11	14.088.769	263.221
2- Financial Assets Held to Maturity		-	-
3- Financial Assets Held for Trading	11	44.625.669	25.063.974
4- Loans		-	-
5- Provision for Loans (-)		-	-
6- Investments with Risks on Policy Holders	11	24.223.699	30.937.445
7- Equity Shares		-	-
8- Diminution in Value of Financial Assets (-)		-	-
C- Receivables from Main Operations	12	3.410.867.880	2.414.708.552
1- Receivables from Insurance Operations	12	71.518.466	59.604.020
2- Provision for Receivables from Insurance Operations (-)	12	(86.479)	(21.541)
3- Receivables from Reinsurance Operations		-	-
4- Provision for Receivables from Reinsurance Operations (-)		-	-
5- Cash Deposited for Insurance & Reinsurance Companies		-	-
6- Loans to Policyholders	2,8,12	584.299	246.684
7- Provision for Loans to Policyholders (-)		-	-
8- Receivables from Private Pension Operations	12,18	3.338.851.594	2.354.879.389
9- Doubtful Receivables from Main Operations		-	-
10- Provisions for Doubtful Receivables from Main Operations (-)		-	-
D- Due from Related Parties	12,45	5.182.582	3.712.017
1- Due from Shareholders	45	33.679	-
2- Due from Affiliates		-	-
3- Due from Subsidiaries		-	-
4- Due from Joint Ventures		-	-
5- Due from Personnel		-	-
6- Due from Other Related Parties	45	5.148.903	3.712.017
7- Discount on Receivables Due from Related Parties (-)		-	-
8- Doubtful Receivables Due from Related Parties		-	-
9- Provisions for Doubtful Receivables Due from Related Parties (-)		-	-
E- Other Receivables	12	45.403	42.867
1- Lease Receivables		-	-
2- Unearned Lease Interest Income (-)		-	-
3- Deposits and Guarantees Given		-	-
4- Other Receivables	12	45.403	42.867
5- Discount on Other Receivables (-)		-	-
6- Other Doubtful Receivables		-	-
7- Provisions for Other Doubtful Receivables (-)		-	-
F- Prepaid Expenses and Income Accruals	17	35.944.595	33.554.896
1- Deferred Acquisition Costs	17	35.789.280	33.409.055
2- Accrued Interest and Rent Income		-	-
3- Income Accruals		-	-
4- Other Prepaid Expenses		155.315	145.841
G- Other Current Assets		478	36.339
1- Inventories		-	35.706
2- Prepaid Taxes and Funds		478	534
3- Deferred Tax Assets		-	-
4- Business Advances		-	99
5- Advances Given to Personnel		-	-
6- Stock Count Differences		-	-
7- Other Current Assets		-	-
8- Provision for Other Current Assets (-)		-	-
I- Total Current Assets		4.207.116.083	3.008.506.768

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

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

BALANCE SHEET AS OF 31 DECEMBER 2012

(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

ASSETS			
II- Non Current Assets	Note	Audited Current Period 31 December 2012	Audited Prior Period 31 December 2011
A- Receivables from Main Operations			
1- Receivables from Insurance Operations		-	-
2- Provision for Receivables from Insurance Operations		-	-
3- Receivables from Reinsurance Operations		-	-
4- Provision for Receivables from Reinsurance Operations		-	-
5- Cash Deposited for Insurance & Reinsurance Companies		-	-
6- Loans to Policyholders		-	-
7- Provision for Loans to Policyholders (-)		-	-
8- Receivables from Private Pension Operations		-	-
9- Doubtful Receivables from Main Operations		-	-
10- Provision for Doubtful Receivables from Main Operations		-	-
B- Due from Related Parties			
1- Due from Shareholders		-	-
2- Due from Affiliates		-	-
3- Due from Subsidiaries		-	-
4- Due from Joint Ventures		-	-
5- Due from Personnel		-	-
6- Due from Other Related Parties		-	-
7- Discount on Receivables Due from Related Parties		-	-
8- Doubtful Receivables Due from Related Parties		-	-
9- Provisions for Doubtful Receivables Due from Related Parties		-	-
C- Other Receivables			
1- Leasing Receivables		4.169	4.169
2- Unearned Leasing Interest Income		-	-
3- Guarantees Given		4.169	4.169
4- Other Receivables		-	-
5- Discount on Other Receivables		-	-
6- Other Doubtful Receivables		-	-
7- Provisions for Other Doubtful Receivables (-)		-	-
D- Financial Assets			
1- Investments In Associates		-	-
2- Affiliates		-	-
3- Capital Commitments to Affiliates (-)		-	-
4- Subsidiaries		-	-
5- Capital Commitments to Subsidiaries (-)		-	-
6- Joint Ventures		-	-
7- Capital Commitments to Joint Ventures (-)		-	-
8- Financial Assets and Investments with Risks on Policy Holders		-	-
9- Other Financial Assets		-	-
10- Diminution in Value of Financial Assets (-)		-	-
E- Tangible Assets			
1- Investment Properties	6	2.981.301	3.160.627
2- Diminution in Value for Investment Properties (-)		-	-
3- Owner Occupied Properties		-	-
4- Machinery and Equipment		-	-
5- Furnitures and Fixtures	6	9.214.680	8.034.334
6- Vehicles		-	-
7- Other Tangible Assets (Including Leasehold Improvements)	6	1.898.379	1.898.379
8- Leased Tangible Assets	6	168.464	168.464
9- Accumulated Depreciation (-)	6	(8.300.222)	(6.940.550)
10- Advances Paid for Tangible Assets (Including Construction In Progress)		-	-
F- Intangible Assets			
1- Rights	8	334.371	334.371
2- Goodwill		-	-
3- Establishment Costs		-	-
4- Research and Development Expenses		-	-
6- Other Intangible Assets	8	46.605.698	37.855.462
7- Accumulated Amortization (-)	8	(34.295.627)	(26.706.637)
8- Advances Regarding Intangible Assets		-	-
G- Prepaid Expenses and Income Accruals			
1- Deferred Acquisition Costs		-	-
2- Income Accruals		-	-
3- Other Prepaid Expenses		-	-
H- Other Non-current Assets			
1- Effective Foreign Currency Accounts		-	-
2- Foreign Currency Accounts		-	-
3- Inventories		-	-
4- Prepaid Taxes and Funds		-	-
5- Deferred Tax Assets	21	1.112.001	573.446
6- Other Non-current Assets		-	-
7- Other Non-current Assets Amortization		-	-
8- Provision for Other Non-current Assets		-	-
II- Total Non-current Assets		16.741.913	15.221.438
TOTAL ASSETS		4.223.857.996	3.023.728.206

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

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

BALANCE SHEET AS OF 31 DECEMBER 2012

(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

III-Short Term Liabilities	Note	Audited Current Period 31 December 2012	Audited Prior Period 31 December 2011
A- Borrowings		812.407	-
1- Borrowings from Financial Institutions		-	-
2- Finance Lease Payables		-	-
3- Deferred Finance Lease Borrowing Costs		-	-
4- Current Portion of Long Term Borrowings		-	-
5- Principal, Installments and Interests on Issued Bills (Bonds)		-	-
6- Other Issued Financial Assets		-	-
7- Value Differences on Issued Financial Assets (-)		-	-
8- Other Financial Borrowings (Liabilities)	20,45	812.407	-
B- Payables from Main Operations	19	3.398.421.509	2.373.430.489
1- Payables Due To Insurance Operations	19	23.201.586	24.823.786
2- Payables Due To Reinsurance Operations		-	-
3- Cash Deposited by Insurance & Reinsurance Companies		-	-
4- Payables Due To Private Pension Operations	18,19	3.375.219.923	2.348.606.703
5- Payables from Other Operations		-	-
6- Discount on Other Payables from Main Operations, Notes Payable (-)		-	-
C- Due to Related Parties	45	5.888.688	5.270.211
1- Due to Shareholders	45	121.814	112.308
2- Due to Affiliates		-	-
3- Due to Subsidiaries		-	-
4- Due to Joint Ventures		-	-
5- Due to Personnel		34.902	30.501
6- Due to Other Related Parties	45	5.731.972	5.127.402
D- Other Payables	19,47	1.104.554	900.152
1- Guarantees and Deposits Received		-	-
2- Payables to Social Security Institution		-	-
3- Other Payables	19,47	1.104.554	900.152
4- Discount on Other Payables (-)		-	-
E- Insurance Technical Reserves	17	163.209.776	86.152.169
1- Unearned Premiums Reserve - Net	17	93.526.742	57.600.426
2- Unexpired Risk Reserves - Net		-	-
3- Life Mathematical Reserves - Net	17,18	27.481.052	11.701.430
4- Outstanding Claims Reserve - Net	17	42.201.982	16.769.750
5- Provision for Bonus and Discounts - Net	17	-	80.563
6- Other Technical Reserves – Net		-	-
F- Taxes and Other Liabilities and Provisions	19	12.226.305	14.846.850
1- Taxes and Dues Payable		2.596.190	5.328.501
2- Social Security Premiums Payable		864.269	1.321.562
3- Overdue, Deferred or By Installment Taxes and Other Liabilities		-	-
4- Other Taxes and Liabilities		-	-
5- Corporate Tax Liability Provision on Period Profit	19	33.492.771	29.137.586
6- Prepaid Taxes and Other Liabilities on Period Profit (-)	19	(24.726.925)	(20.940.799)
7- Provisions for Other Taxes and Liabilities		-	-
G- Provisions for Other Risks	23	2.238.167	1.941.188
1- Provision for Employment Termination Benefits		-	-
2- Pension Fund Deficit Provision		-	-
3- Provisions for Costs	23	2.238.167	1.941.188
H- Deferred Income and Expense Accruals	19	5.385.796	25.572.594
1- Deferred Commission Income	10,19	3.611.023	24.044.819
2- Expense Accruals	19	1.774.773	1.527.775
3- Other Deferred Income and Expense Accruals		-	-
I- Other Short Term Liabilities		-	-
1- Deferred Tax Liability		-	-
2- Inventory Count Differences		-	-
3- Other Short Term Liabilities		-	-
III - Total Current Liabilities		3.589.287.202	2.508.113.653

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

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

BALANCE SHEET AS OF 31 DECEMBER 2012

(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

LIABILITIES			
IV- Long Term Liabilities	Note	Audited Current Period 31 December 2012	Audited Prior Period 31 December 2011
A- Borrowings		-	-
1- Borrowings from Financial Institutions		-	-
2- Finance Lease Payables		-	-
3- Deferred Finance Lease Borrowing Costs		-	-
4- Bonds Issued		-	-
5- Other Issued Financial Assets		-	-
6- Value Differences on Issued Financial Assets (-)		-	-
7- Other Financial Borrowings (Liabilities)		-	-
B- Payables from Main Operations		-	-
1- Payables Due To Insurance Operations		-	-
2- Payables Due To Reinsurance Operations		-	-
3- Cash Deposited by Insurance & Reinsurance Companies		-	-
4- Payables Due To Private Pension Operations		-	-
5- Payables from Other Operations		-	-
6- Discount on Other Payables from Main Operations		-	-
C- Due to Related Parties		-	-
1- Due to Shareholders		-	-
2- Due to Affiliates		-	-
3- Due to Subsidiaries		-	-
4- Due to Joint Ventures		-	-
5- Due to Personnel		-	-
6- Due to Other Related Parties		-	-
D- Other Payables		-	-
1- Guarantees and Deposits Received		-	-
2- Payables to Social Security Institution		-	-
3- Other Payables		-	-
4- Discount on Other Payables		-	-
E- Insurance Technical Reserves	17	63.116.535	73.334.405
1- Unearned Premiums Reserve - Net		-	-
2- Unexpired Risk Reserves - Net		-	-
3- Life Mathematical Reserves - Net	17,18	57.799.004	69.800.362
4- Outstanding Claims Reserve - Net		-	-
5- Provision for Bonus and Discounts – Net		-	-
7- Other Technical Reserves – Net	17	5.317.531	3.534.043
F- Other Liabilities and Provisions		-	-
1- Other Liabilities		-	-
2- Overdue, Deferred or By Installment Other Liabilities		-	-
3- Other Liabilities and Expense Accruals		-	-
G- Provisions for Other Risks	23	141.309	150.621
1- Provision for Employment Termination Benefits	23	141.309	150.621
2- Provisions for Pension Fund Deficits		-	-
H- Deferred Income and Expense Accruals		-	-
1- Deferred Commission Income		-	-
2- Expense Accruals		-	-
3- Other Deferred Income and Expense Accruals		-	-
I- Other Long Term Liabilities		-	-
1- Deferred Tax Liability		-	-
2- Other Long Term Liabilities		-	-
IV- Total Non Current Liabilities		63.257.844	73.485.026

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

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

BALANCE SHEET AS OF 31 DECEMBER 2012

(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

SHAREHOLDERS' EQUITY			
V- Shareholders' Equity	Note	Audited Current Period 31 December 2012	Audited Prior Period 31 December 2011
A- Paid in Capital		53.084.445	53.084.445
1- (Nominal) Capital	2,13,15	50.000.000	50.000.000
2- Unpaid Capital (-)		-	-
3- Positive Inflation Adjustment on Capital		3.084.445	3.084.445
4- Negative Inflation Adjustment on Capital (-)		-	-
5- Capital to Be Registered		-	-
B- Capital Reserves		-	-
1- Equity Share Premiums		-	-
2- Cancellation Profits of Equity Shares		-	-
3- Profit on Sale to be Transferred to Capital		-	-
4- Translation Reserves		-	-
5- Other Capital Reserves		-	-
C- Profit Reserves		389.182.079	276.438.555
1- Legal Reserves	15	10.000.000	10.000.000
2- Statutory Reserves		-	-
3- Extraordinary Reserves	15	378.770.696	266.164.169
4- Special Funds (Reserves)		-	-
5- Valuation of Financial Assets	11,15	411.383	274.386
6- Other Profit Reserves		-	-
D- Previous Years' Profits		-	-
1- Previous Years' Profits		-	-
E- Previous Years' Losses (-)		-	-
1- Previous Years' Losses		-	-
F- Net Profit of the Period		129.046.426	112.606.527
1- Net Profit of the Period		129.046.426	112.606.527
2- Net Loss of the Period		-	-
3- Nondistributed Net Profit of the Period		-	-
Total Shareholders' Equity		571.312.950	442.129.527
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		4.223.857.996	3.023.728.206

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

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ**INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012**

(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

	Note	Audited Current Period 31 December 2012	Audited Prior Period 31 December 2011
I-TECHNICAL PART			
A- Non-Life Technical Income		3.664	2.349
1- Earned Premiums (Net of Reinsurer Share)	17	3.664	2.349
1.1 - Premiums (Net of Reinsurer Share)	17	1.224	5.161
1.1.1 - Gross Premiums	17	1.224	5.161
1.1.2 - Ceded Premiums to Reinsurers		-	-
1.1.3- Premiums Transferred to SSI(-)		-	-
1.2- Change in Unearned Premiums Reserve (Net of Reinsurers Shares and Reserves Carried Forward)	17	2.440	(2.812)
1.2.1 - Unearned Premiums Reserve	17	2.440	(2.812)
1.2.2 - Reinsurance Share of Unearned Premiums Reserve		-	-
1.2.3- SSI Share of Gross Unearned Premiums Reserve (Net of Reserves Carried Forward)(+/-)		-	-
1.3- Changes in Unexpired Risks Reserve (Net of Reinsurer Share and Reserves Carried Forward)		-	-
1.3.1 - Unexpired Risks Reserve		-	-
1.3.2 - Reinsurance Share of Unexpired Risks Reserve		-	-
2- Investment Income Transferred from Non-Technical Part		-	-
3- Other Technical Income (Net of Reinsurer Share)		-	-
3.1 - Gross Other Technical Income		-	-
3.2 - Reinsurance Share of Other Technical Income		-	-
4. Accrued Subrogation and Sovtage Income (+)		-	-
B- Non-Life Technical Expense (-)		(24.161)	(20.261)
1- Total Claims (Net of Reinsurer Share)		(765)	(511)
1.1- Claims Paid (Net of Reinsurer Share)	17	-	-
1.1.1 - Gross Claims Paid	17	-	-
1.1.2 - Reinsurance Share of Claims Paid		-	-
1.2- Changes in Outstanding Claims Reserve (Net of Reinsurer Share and Reserves Carried Forward)	17	(765)	(511)
1.2.1 - Outstanding Claims Reserve	17	(765)	(511)
1.2.2 - Reinsurance Share of Outstanding Claims Reserve		-	-
2- Changes in Bonus and Discount Reserve (Net of Reinsurer Share and Reserves Carried Forward)		-	-
2.1 - Bonus and Discount Reserve		-	-
2.2 - Reinsurance Share of Bonus and Discount Reserve		-	-
3- Changes in Other Technical Reserves (Net of Reinsurer Share and Reserves Carried Forward) (+/-)		-	-
4- Operating Expenses (-)	32	(23.396)	(19.750)
5- Changes in Mathematical Reserves (Net of Reinsurer Share and Reserves Carried Forward) (+/-)		-	-
5.1- Mathematical Reserves		-	-
5.2- Reinsurance Share in Mathematical Reserves (+)		-	-
6- Other Technical Expenses (-)		-	-
6.1- Gross Other Technical Expenses(-)		-	-
6.2- Reinsurance Share in Gross Other Technical Expenses (+)		-	-

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

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

I-TECHNICAL INCOME	Note	Audited Current Period 31 December 2012	Audited Prior Period 31 December 2011
C- Non Life Technical Net Profit (A-B)		(20.497)	(17.912)
D- Life Technical Income		207.567.462	166.292.028
1- Earned Premiums (Net of Reinsurer Share)	17	197.127.412	147.688.000
1.1 - Premiums (Net of Reinsurer Share)	17	233.056.168	152.628.102
1.1.1 - Gross Premiums (+)	17	262.853.846	240.484.536
1.1.2 - Ceded Premiums to Reinsurers (-)	10, 17	(29.797.678)	(87.856.434)
1.2- Change in Unearned Premiums Reserve (Net of Reinsurers Shares and Reserves Carried Forward) (+/-)	17	(35.928.756)	(4.940.102)
1.2.1 - Unearned Premiums Reserve (-)		(7.380.473)	(7.306.643)
1.2.2 - Reinsurance Share of Unearned Premiums Reserve (+)	10	(28.548.283)	2.366.532
1.3- Changes in Unexpired Risks Reserve (Net of Reinsurer Share and Reserves Carried Forward)(+/-)		-	-
1.3.1 - Unexpired Risks Reserve (-)		-	-
1.3.2 - Reinsurance Share of Unexpired Risks Reserve (+)		-	-
2- Life Branch Investment Income		10.319.080	18.509.945
3- Accrued (Unrealized) Income from Investments		-	-
4- Other Technical Income (Net of Reinsurer Share)		120.970	94.083
4.1- Gross Other Technical Income (+/-)		120.970	94.083
4.2- Reinsurance Share in Gross Other Technical Income (+)		-	-
5- Accrued Subrogation Income (+)		-	-
E- Life Technical Expense		(128.357.856)	(84.337.666)
1- Total Claims (Net of Reinsurer Share)	17	(59.183.558)	(35.354.429)
1.1- Claims Paid (Net of Reinsurer Share)	17	(33.752.091)	(31.134.971)
1.1.1- Gross Claims Paid (-)	17	(55.463.242)	(46.668.779)
1.1.2- Reinsurance Share of Claims Paid (+)	10, 17	21.711.151	15.533.808
1.2- Changes in Outstanding Claims Reserve (Net of Reinsurer Share and Reserves Carried Forward) (+/-)	17	(25.431.467)	(4.219.458)
1.2.1- Outstanding Claims Reserve (-)	17	(31.179.666)	(3.657.882)
1.2.2- Reinsurance Share of Outstanding Claims Reserve (+)	10, 17	5.748.199	(561.576)
2- Changes in Bonus and Discount Reserve (Net of Reinsurer Share and Reserves Carried Forward) (+/-)		80.563	(24.410)
2.1- Bonus and Discount Reserve (-)		80.563	(24.410)
2.2- Reinsurance Share of Bonus and Discount Reserve (+)		-	-
3- Changes in Life Mathematical Reserves (Net of Reinsurer Share and Reserves Carried Forward) (+/-)		(2.838.138)	(9.577.986)
3.1- Life Mathematical Reserves		(2.838.138)	(9.577.986)
3.1.1- Actuarial Mathematical Reserve (+/-)		(2.838.138)	(9.577.986)
3.1.2- Profit share reserve (Technical Reserves for Investments with Risks on Policyholders)		-	-
3.2- Reinsurance Share of Life Mathematical Reserves		-	-
4- Changes in Technical Reserves (Net of Reinsurer Share and Reserves Carried Forward) (+/-)		(1.783.488)	(1.042.837)
5- Operating Expenses	32	(64.285.945)	(28.500.640)
6- Investment Expenses		-	-
7- Unrealized Losses from Investments (-)		-	-
8- Investment Income Transferred to Non Technical Divisions (-)		(347.290)	(9.837.364)

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

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ
INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012
(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

I-TECHNICAL PART	Note	Audited Current Period 31 December 2012	Audited Prior Period 31 December 2011
F- Life Technical Profit/ (Loss) (D – E)		79.209.606	81.954.362
G- Private Retirement Technical Income	25	109.666.848	85.589.184
1- Fund Management Fee		53.523.594	40.097.813
2- Management Fee Deduction		24.297.142	20.893.405
3- Entrance Fee Income		31.841.631	24.597.889
4- Management Fee In Case of Temporary Suspension		-	-
5- Withholding Tax		-	-
6- Increase in Market Value of Capital Commitment Advances		-	77
7- Other Technical Income		4.481	-
H- Private Retirement Technical Expenses		(68.806.579)	(58.059.051)
1- Fund Management Expenses (-)		(8.581.216)	(7.532.570)
2- Decrease in Market Value of Capital Commitment Advances (-)		-	-
3- Operating Expenses (-)	32	(54.343.964)	(43.508.381)
4- Other Technical Expenses (-)		(5.881.399)	(7.017.920)
I- Private Retirement Technical Profit/(Loss) (G – H)		40.860.269	27.530.133

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

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ**INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012**

(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

		Audited Current Period (01/01/2012 - 31/12/2012)	Audited Prior Period (01/01/2011 - 31/12/2011)
II-NON-TECHNICAL	Note		
C- Non Life Technical Net Profit (A-B)		(20.497)	(17.912)
F- Life Technical Profit/ (Loss) (D – E)		79.209.606	81.954.362
I- Private Pension Technical Profit/(Loss) (G – H)		40.860.269	27.530.133
J- General Technical Net Profit (C+F+I)		120.049.378	109.466.583
K- Investment Income		50.652.773	53.223.911
1- Income from Financial Investments		43.767.091	30.160.469
2- Income from Sale of Financial Investments		457.838	1.092.857
3- Valuation of Financial Investments		5.411.589	4.233.138
4- Foreign Exchange Gains		668.965	7.900.083
5- Dividend Income from Participations		-	-
6- Income from Affiliated Companies		-	-
7- Income Received from Land and Building		-	-
8- Income from Derivatives		-	-
9- Other Investments		-	-
10- Investment Income transferred from Life Technical Part		347.290	9.837.364
L- Investment Expenses (-)		(9.971.383)	(18.189.916)
1- Investment Management Expenses (Including Interest)		(107.130)	(51.658)
2- Valuation Allowance of Investments		-	-
3- Losses On Sales of Investments		(228.374)	(991.385)
4- Investment Income Transferred to Life Technical Part		-	-
5- Losses from Derivatives		-	-
6- Foreign Exchange Losses		(659.080)	(9.216.465)
7- Depreciation and Amortization Expenses	6, 8	(8.948.662)	(7.907.455)
8- Other Investment Expenses		(28.137)	(22.953)
M- Other Income and Expenses (+/-)		1.808.429	(2.756.465)
1- Provisions Account	47	(352.606)	(257.560)
2- Discount Account		489.247	(595.247)
3- Specialty Insurances Account		-	-
4- Inflation Adjustment Account		-	-
5- Deferred Tax Asset Accounts	21, 35	572.804	373.048
6- Deferred Tax Liability Accounts		-	-
7- Other Income and Revenues	47	3.491.775	174.925
8- Other Expense and Losses	47	(2.392.791)	(2.451.631)
9- Prior Period Income		-	-
10- Prior Period Losses		-	-
N- Net Profit / (Loss)		129.046.426	112.606.527
1- Profit /(Loss) Before Tax		162.539.197	141.744.113
2- Corporate Tax Charge (-)	35	(33.492.771)	(29.137.586)
3- Net Profit /(Loss) for the Period		129.046.426	112.606.527
4- Inflation Adjustment Account		-	-

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

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ										TL	
SHAREHOLDERS' EQUITY MOVEMENT											
Audited	Capital	Treasury Shares	Valuation of Financial Assets	Inflation Adjustment on Shareholders' Equity	Translation Reserves	Legal Reserves	Statutory Reserves	Other Reserves and Retained Earnings	Net Profit (Loss) for the Period	Previous Years' Profits / Losses	Total
I - Closing Balance of Prior Period (01/01/2011)	50.000.000	-	348.881	3.084.445	-	8.777.544	-	167.345.946	100.040.679	-	329.597.495
II - Changes in Accounting Policies	-	-	-	-	-	-	-	-	-	-	-
III - Restated Balance (I + II) (01/01/2011)	50.000.000	-	348.881	3.084.445	-	8.777.544	-	167.345.946	100.040.679	-	329.597.495
A- Capital increase	-	-	-	-	-	-	-	-	-	-	-
1-Cash	-	-	-	-	-	-	-	-	-	-	-
2- Internal sources	-	-	-	-	-	-	-	-	-	-	-
B- Change in treasury shares	-	-	-	-	-	-	-	-	-	-	-
C- Income / (expense) recognized directly in the equity	-	-	-	-	-	-	-	-	-	-	-
D- Value increase/(decrease) in financial assets	-	-	(74.495)	-	-	-	-	-	-	-	(74.495)
E- Translation reserves	-	-	-	-	-	-	-	-	-	-	-
F- Other income / (expenses)	-	-	-	-	-	-	-	-	-	-	-
G- Inflation adjustment differences	-	-	-	-	-	-	-	-	-	-	-
H- Net profit for the period	-	-	-	-	-	-	-	-	112.606.527	-	112.606.527
I- Dividends distributed	-	-	-	-	-	-	-	-	-	-	-
J- Transfer	-	-	-	-	-	1.222.456	-	98.818.223	(100.040.679)	-	-
II - Closing Balance at 31/12/2011 (I+A+B+C+D+E+F+G+H+I+J)	50.000.000	-	274.386	3.084.445	-	10.000.000	-	266.164.169	112.606.527	-	442.129.527

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ										TL	
SHAREHOLDERS' EQUITY MOVEMENT											
Audited	Capital	Treasury Shares	Valuation of Financial Assets	Inflation Adjustment on Shareholders' Equity	Translation Reserves	Legal Reserves	Statutory Reserves	Other Reserves and Retained Earnings	Net Profit (Loss) for the Period	Previous Years' Profits / Losses	Total
I - Closing Balance of Prior Period (01/01/2012)	50.000.000	-	274.386	3.084.445	-	10.000.000	-	266.164.169	112.606.527	-	442.129.527
II - Changes in Accounting Policies	-	-	-	-	-	-	-	-	-	-	-
III - Restated Balance (I + II) (01/01/2012)	50.000.000	-	274.386	3.084.445	-	10.000.000	-	266.164.169	112.606.527	-	442.129.527
A- Capital increase	-	-	-	-	-	-	-	-	-	-	-
1-Cash	-	-	-	-	-	-	-	-	-	-	-
2- Internal sources	-	-	-	-	-	-	-	-	-	-	-
B- Change in treasury shares	-	-	-	-	-	-	-	-	-	-	-
C- Income / (expense) recognized directly in the equity	-	-	-	-	-	-	-	-	-	-	-
D- Value increase/(decrease) in financial assets	-	-	136.997	-	-	-	-	-	-	-	136.997
E- Translation reserves	-	-	-	-	-	-	-	-	-	-	-
F- Other income / (expenses)	-	-	-	-	-	-	-	-	-	-	-
G- Inflation adjustment differences	-	-	-	-	-	-	-	-	-	-	-
H- Net profit for the period	-	-	-	-	-	-	-	-	129.046.426	-	129.046.426
I- Dividends distributed	-	-	-	-	-	-	-	-	-	-	-
J- Transfer	-	-	-	-	-	-	-	112.606.527	(112.606.527)	-	-
II - Closing Balance at 31/12/2012 (I+A+B+C+D+E+F+G+H+I+J)	50.000.000	-	411.383	3.084.445	-	10.000.000	-	378.770.696	129.046.426	-	571.312.950

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

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

	Note	Audited Current Period (01/01/2012 - 31/12/2012)	Audited Current Period (01/01/2011 - 31/12/2011)
A. CASH FLOWS FROM THE OPERATING ACTIVITIES			
1. Cash inflows from the insurance operations		221.238.601	174.153.819
2. Cash inflows from the reinsurance operations		-	-
3. Cash inflows from the private pension operations		109.666.848	85.589.184
4. Cash outflows due to the insurance operations (-)		(111.315.732)	(80.484.374)
5. Cash outflows due to the reinsurance operations (-)		-	-
6. Cash outflows due to the private pension operations (-)		(26.165.564)	(58.558.711)
7. Cash generated from the operating activities (A1+A2+A3-A4-A5-A6)		193.424.153	120.699.918
8. Interest payments		-	-
9. Income tax payments		(32.923.712)	(29.422.695)
10. Other cash inflows		10.338.527	10.983.019
11. Other cash outflows		(12.654.353)	(10.562.713)
12. Net cash generated from the operating activities		158.184.615	91.697.529
B. CASH FLOWS FROM THE INVESTING ACTIVITIES			
1. Sale of tangible assets		-	4.200
2. Purchase of tangible assets	6	(1.180.346)	(2.122.293)
3. Acquisition of financial assets		(32.275.871)	(1.186.276)
4. Sale of financial assets		6.402.311	16.096.301
5. Interest received		46.474.371	33.331.119
6. Dividends received		-	-
7. Other cash inflows		805.962	17.737.447
8. Other cash outflows (-)		(11.014.715)	(9.482.537)
9. Net cash generated from the investing activities		9.211.712	54.350.961
C. CASH FLOWS FROM THE FINANCING ACTIVITIES			
1. Issue of equity shares		-	-
2. Cash inflows from borrowings		812.407	-
3. Payments of financial leases		-	-
4. Dividends paid		-	-
5. Other cash inflows		-	-
6. Other cash outflows		-	(570.396)
7. Cash generated from the financing activities		812.407	(570.396)
D. EFFECTS OF EXCHANGE RATE DIFFERENCES ON CASH AND CASH EQUIVALENTS			
		757.472	(1.258.700)
E. Net increase/(decrease) in cash and cash equivalents (A12+B9+C7+D)		168.966.206	144.219.394
F. Cash and cash equivalents at the beginning of the period	14	497.143.555	352.924.161
G. Cash and cash equivalents at the end of the period (E+F)	14	666.109.761	497.143.555

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

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2012

(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

	Note	AUDITED Current Period (31/12/2012) (*)	AUDITED Prior Period (31/12/2011)
I. DISTRIBUTION OF PROFIT FOR THE PERIOD			
1.1. PROFIT FOR THE PERIOD		162.539.197	141.744.113
1.2. TAXES PAYABLE AND LEGAL LIABILITIES		(33.492.771)	(29.137.586)
1.2.1. Corporate Tax (Income Tax)		(33.492.771)	(29.137.586)
1.2.2. Income Tax Deduction		-	-
1.2.3. Other Taxes And Legal Liabilities		-	-
A NET PROFIT FOR THE PERIOD (1.1 – 1.2)		129.046.426	112.606.527
1.3. PREVIOUS YEARS' LOSSES (-)			-
1.4. FIRST LEGAL RESERVE			-
1.5. COMPULSORY LEGAL FUNDS TO BE RETAINED IN THE COMPANY (-)			-
"B NET PROFIT FOR THE PERIOD AVAILABLE FOR DISTRIBUTION [(A - (1.3 + 1.4 + 1.5))]"		129.046.426	112.606.527
1.6. FIRST DIVIDENDS TO SHAREHOLDERS (-)			-
1.6.1. To Holders of Ordinary Shares			-
1.6.2. To Holders of Preferred Shares			-
1.6.3 To Holders Of Participating Redeemed Shares			-
1.6.4 To Holders of Bonds Participating to Profit			-
1.6.5 To Holders of Profit and Loss Sharing Certificates			-
1.7. DIVIDENDS TO PERSONNEL (-)			-
1.8. DIVIDENDS TO FOUNDERS (-)			-
1.9. DIVIDENDS TO BOARD OF DIRECTORS (-)			-
1.10. SECOND DIVIDENDS TO SHAREHOLDERS (-)			-
1.10.1. To Holders of Ordinary Shares			-
1.10.2. To Holders of Preferred Shares			-
1.10.3. To Holders Of Participating Redeemed Shares			-
1.10.4. To Holders of Bonds Participating to Profit			-
1.10.5. To Holders of Profit and Loss Sharing Certificates			-
1.11. SECOND LEGAL RESERVE (-)			-
1.12. STATUTORY RESERVES (-)			-
1.13. EXTRAORDINARY RESERVES			(112.606.527)
1.14 OTHER RESERVES			-
1.15 SPECIAL FUNDS			-
II. DISTRIBUTION FROM RESERVES			-
2.1. DISTRIBUTED RESERVES			-
2.2. SECOND LEGAL RESERVE (-)			-
2.3. DIVIDENDS TO SHAREHOLDERS (-)			-
2.3.1. To Holders of Ordinary Shares			-
2.3.2 To Holders of Preferred Shares			-
2.3.3. To Holders Of Participating Redeemed Shares			-
2.3.4 To Holders of Bonds Participating to Profit			-
2.3.5 To Holders of Profit and Loss Sharing Certificates			-
2.4. DIVIDENDS TO EMPLOYEES (-)			-
2.5. DIVIDENDS TO BOARD OF DIRECTORS (-)			-
III. PROFIT PER SHARE			-
3.1. TO OWNERS OF ORDINARY SHARES			0,023
3.2. TO OWNERS OF ORDINARY SHARES (%)			2,001
3.3. TO OWNERS OF PREFERRED SHARES			-
3.4. TO OWNERS OF PREFERRED SHARES (%)			-
IV. DIVIDENDS PER SHARE			-
4.1. OWNERS OF ORDINARY SHARES			0,023
4.2. TO OWNERS OF ORDINARY SHARES (%)			2,252
4.3. TO OWNERS OF PREFERRED SHARES			-
4.4. TO OWNERS OF PREFERRED SHARES (%)			-

(*) As the statement of profit distribution to be authorized by the General Assembly is not determined by the Board of Directors, only the net profit available for distribution is presented in the statement of profit distribution for the year 2012.

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2012

(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

1. General information

1.1 Parent Company and the Ultimate Owner of the Company

As at 31 December 2012, the shareholder having direct or indirect control over the shares of Garanti Emeklilik ve Hayat Anonim Şirketi (“the Company”) is Türkiye Garanti Bankası AŞ (“Garantibank”) by %84,91 of the outstanding shares of the Company. Other shareholder having significant influence over the Company management is Achmea BV, Netherlands based Company, by %15,00 participation ratio.

1.2 The Company’s address and legal structure and address of its registered country and registered office (or, if the Company’s address is different from its registered office, the original location where the Company’s actual operations are performed)

The Company, an ‘Incorporated Company’ in accordance with the regulations of Turkish Commercial Code (“TTK”), was registered in Turkey in 1992. As at balance sheet date, the registered address of the Company is Mete Cad. No:30 Taksim/İstanbul.

1.3 Main Operations of the Company

The Company was established on 24 July 1992 with an initial share capital of TL 10.000. The initial name of the Company was “AGF Garanti Hayat Sigorta Anonim Sirketi”, first changed on 18 May 1999 as “Garanti Hayat Sigorta Anonim Şirketi”.

On 14 November 2002, the Company applied for conversion from life insurance company to private pension company in accordance with the 2nd clause of 1st Temporary Article of Law No.4632 on Private Pension Savings and Investment System issued in 7 April 2001 dated 4632 numbered Official Gazette. The conversion was approved by T.C. Başbakanlık Hazine Müsteşarlığı (“the Turkish Treasury”) on 18 December 2002 and the title of the Company was first changed as “Garanti Emeklilik Anonim Şirketi” as published in 15 January 2003 dated Official Gazette then changed as “Garanti Emeklilik ve Hayat Anonim Şirketi” as published in 25 March 2003 dated Official Gazette.

The commercial operations of the Company were defined as issuing private pension contracts and life insurance policies. The Company has also started to issue policies under personal accident branch in accordance with its Articles of Association since 1 July 2006.

As per the resolution of the Board of Directors, the Company has established 6 pension investment funds on 28 June 2003 after taking the approval of Capital Markets Board of Turkey. The investment portfolios of these funds are managed by Garanti Portföy Yönetimi AŞ in accordance with the agreement signed between parties. The Company provided share capital advance to these funds amounted to TL 2.150.000 during their establishment.

As per the resolution of the Board of Directors, the Company has established 1 pension investment fund on 25 January 2004 after taking the approval of Capital Markets Board of Turkey. The investment portfolio of the fund is managed by Garanti Portföy Yönetimi AŞ in accordance with the agreement signed between parties. The Company provided share capital advance to the fund amounted to TL 10.000 during its establishment.

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2012

(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

1 General information (continued)

1.3 Main Operations of the Company (continued)

As per the resolution of the Board of Directors, the Company has established 3 pension investment funds for groups on 26 January 2005 after taking the approval of Capital Markets Board of Turkey. The investment portfolio of these funds are managed by Garanti Portföy Yönetimi AŞ in accordance with the agreement signed between parties. The Company provided share capital advance to these funds amounted to TL 150.000 during their establishment.

As per the resolution of the Board of Directors, the Company has established 1 pension investment fund on 27 April 2005 after taking the approval of Capital Markets Board of Turkey. The investment portfolio of the fund is managed by Deniz Portföy Yönetimi A.Ş. in accordance with the agreement signed between parties. The Company provided share capital advance to the fund amounted to TL 10.000 during its establishment.

As per the resolution of the Board of Directors, the Company has established 1 pension investment fund on 25 September 2008 after taking the approval of Capital Markets Board of Turkey. The investment portfolio of the fund is managed by Garanti Portföy Yönetimi A.Ş. in accordance with the agreement signed between parties. The Company provided share capital advance to the fund amounted to TL 100.000 during its establishment.

As per the resolution of the Board of Directors, the Company has established 3 pension investment funds for groups on 6 October 2010 after taking the approval of Capital Markets Board of Turkey. The investment portfolio of these funds is managed by Garanti Portföy Yönetimi A.Ş. in accordance with the agreement signed between parties. The Company provided share capital advance to these funds amounted to TL 150.000 during their establishment.

“Garanti Emeklilik ve Hayat A.Ş. Emanet-Likit Emeklilik Yatırım Fund” has been converted to “Garanti Emeklilik ve Hayat A.Ş. Gruplara Yönelik Hisse Senedi Emeklilik Yatırım” according to the 30 June 2011 dated approval of Capital Markets Board of Turkey. The investment portfolio of the fund is managed by Garanti Portföy Yönetimi A.Ş. in accordance with the agreement signed between parties.

As per the resolution of the Board of Directors, the Company has established 1 pension investment fund on 11 September 2012 after taking the approval of Capital Markets Board of Turkey. The investment portfolio of the fund is managed by Garanti Portföy Yönetimi A.Ş. in accordance with the agreement signed between parties. The Company provided share capital advance to the fund amounted to TL 500.000 during its establishment.

As of 31 December 2012, the Company has sixteen pension investment funds in total (As at 31 December 2011: Sixteen pension investment funds in total).

1.4 Details of the Company’s operations and nature of field activities

As at 31 December 2012, the Company issues policies in life and personal accident insurance branches and contracts in private pension business by conducting its operations in accordance with the Insurance Law No.5684 (the “Insurance Law”) issued in 14 June 2007 dated and 26552 numbered Official Gazette and Private Pension Savings and Investment System Law No.4632 (the “Private Pension Law”) issued in 7 April 2001 dated 4632 numbered Official Gazette and other communiqués and regulations in force issued by the Turkish Treasury based on the Insurance Law and the Private Pension Law.

1.5 Average number of the Company’s personnel based on their categories

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

	2012	2011
Key management personnel	17	20
Other personnel	856	696
Total	873	716

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2012

(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

1 General Information (continued)

1.6 Remuneration and fringe benefits provided to top management

As of 31 December 2012, remuneration and fringe benefits provided to top management such as; chairman and members of the board of directors, managing director and assistant managing director in total amount to TL 4.656.408 (31 December 2011: TL 4.273.130).

1.7 Distribution keys used in the distribution of investment income and operating expenses in the financial statements (personnel expenses, administration expenses, research and development expenses, marketing and selling expenses and other operating expenses)

Known and exactly distinguishable operating expenses are directly recorded under life, non-life or private pension segments in accordance with the 4 January 2008 dated and 2008/1 numbered “Communiqué Related to the Procedures and Principles for the Keys Used in the Financial Statements Being Prepared In Accordance With Insurance Chart of Account” issued by the Republic of Turkey Prime Ministry Undersecretariat of the Treasury. The allocation of non-distinguishable technical operating expenses are determined in accordance with the 9 August 2010 dated and 2010/9 numbered “Communiqué Related to Changes in the Communiqué Related to the Procedures and Principles for the Keys Used in the Financial Statements Being Prepared In Accordance With Insurance Chart of Account” valid since 1 January 2011 and issued by the Undersecretariat of the Treasury. Accordingly, other non-distinguishable expenses, which are not exactly distinguished, are distributed between insurance segments and private pension segment in accordance with the average number of pension contracts and policies issued within last 3 years. The portion of insurance segments is distributed between life and non-life branches in accordance with the average of 3 ratios calculated by dividing “number of the policies produced within the last three years”, “gross premiums written within the last three years”, and “number of the claims reported within the last three years” to the “total number of the policies”, “total gross written premiums”, and the “total number of the claims reported”, respectively.

Income from the assets invested against non-life technical provisions is transferred to technical section from non-technical section.

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

1.8 Stand-alone or consolidated financial statements

The accompanying financial statements comprise only the financial information of the Company. As further detailed in Note 2.2, the Company has not prepared consolidated financial statements as at and for the year ended 31 December 2012.

1.9 Name and other information of the reporting company and subsequent changes to the prior balance sheet date

Trade name of the Company : Garanti Emeklilik ve Hayat Anonim Şirketi

Registered address of the head office : Mete Cad. No:30

Taksim/İstanbul

The web page of the Company : www.garantiemeklilik.com.tr

There is no change in the aforementioned information subsequent to the balance sheet date.

1.10 Subsequent events

Explanations related to subsequent events are disclosed in Note 46 – Subsequent events.

2 Summary of Significant Accounting Policies

2.1 Basis of Preparation

2.1.1 Basis of Preparation of Financial Statements and Specific Accounting Policies Used

The Company maintains its books of account and prepares its financial statements in accordance with the Turkish Accounting Standards (“TAS”), Turkish Financial Reporting Standards (“TFRS”), and other accounting and financial reporting principles, statements and guidance (collectively “the Reporting Standards”) in accordance with the “Communiqué Related to the Financial Reporting of Insurance, Reinsurance, and Private Pension Companies” as promulgated by the Turkish Treasury based on Article 18 of the Insurance Law and Article 11 of the Private Pension Law.

In Article 4 of the related communiqué; it is stated that procedures and principles related to accounting of insurance contracts, subsidiaries, associates and joint ventures and presentation of unconsolidated and consolidated financial statements together with their explanatory notes which will be announced to the public will be determined by the further communiqués of the Turkish Treasury.

Although the 4th standard of the Turkish Accounting Standards Board (“TASB”) for the ‘Insurance contracts’ became effective on 25 March 2006 for the accounting periods that begin on or after 31 December 2005, it is stated that TFRS 4 will not be implemented at this stage since the second phase of the International Accounting Standards Board project about the insurance contracts has not been completed yet. In this context, “Communiqué on Technical Reserves for Insurance, Reinsurance and Private Pension Companies and the Related Assets That Should Be Invested Against Those Technical Reserves” (“Communiqué on Technical Reserves”) is published in the 7 August 2007 dated Official Gazette, numbered 26606 and became effective on 1 January 2008. Subsequent to the publication of the Communiqué on Technical Reserves, some other circulars and sector announcements which contain explanations and regulations related to application of the Communiqué on Technical Reserves are published. Accounting policies applied for the insurance contracts based on these communiqué, circulars and other sector announcements are summarized on its own caption in the following sections.

Statutory Decree No: 660, which has been become effective and published in the Official Gazette on 2 November 2011, and the Additional Clause 1 of the Law No: 2499 were nullified and accordingly, Public Oversight, Accounting and Audit Standards Institution (the “Institution”) was established. As per Additional Article 1 of the Statutory Decree, applicable laws and standards will apply until new standards and regulations be issued by the Institution and will become effective. In this respect, the respective matter has no effect over the ‘Basis of The Preparation of Financial Statements’ Note disclosed in the accompanying financial statements as of the reporting date.

“Circular Related to the Presentation of Financial Statements”, issued by the Turkish Treasury in the 18 April 2008 dated and 26851 numbered Official Gazette, regulates the content of the financial statements to make them comparable with the financial statements of previous periods and the other companies.

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

Preparation of Financial Statements in Hyperinflationary Periods

With respect to the 4 April 2005 dated and 19387 numbered declaration of the Turkish Treasury, the Company restated its financial statements as at 31 December 2004 and prepared opening balances of the financial statements of 2005 in accordance with the “Restatement of Financial Statements in Hyperinflationary Periods” of the Capital Markets Board (“CMB”) Communiqué No: 25 of Series XI, “Communiqué on Accounting Standards in Capital Market” published in the Official Gazette dated 15 January 2003 and numbered 25290. Inflation accounting is no longer applied starting from 1 January 2005, in accordance with the same declaration of the Turkish Treasury.

2 Summary of Significant Accounting Policies (continued)

2.1 Basis of Preparation (continued)

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

Other accounting policies

Information regarding to other accounting polices is explained above in the section of Note 2.1.1 – Information about the principles and the special accounting policies used in the preparation of the financial statements and each on its own caption in following sections of this report.

2.1.3 Functional and presentation currency

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

2.1.4 Rounding level of the amounts presented in the financial statements

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

2.1.5 Valuation method(s) used in the presentation of financial statements

The accompanying financial statements are prepared on the historical cost basis, except for the financial assets at fair value through profit or loss, available-for-sale financial assets and financial investments with risks on saving life policyholders classified as available-for-sale financial assets which are measured at their fair values unless reliable measures are available.

2.1.6 Accounting policies, changes in accounting estimates and errors

Details of other standards and interpretations adopted in these financial statements but that have had no impact on the financial statements are set out below.

- a. New and revised standards affecting presentation and disclosure only
None.
- b. New and revised standards affecting the reported financial performance and / or financial position
None.
- c. Standards and Interpretations that are effective in 2012 with no impact on the 2012 financial statements

The following new and revised standards below have been applied in the current year. The standards have not affected the amounts reported in the financial statements for the current and previous years but may affect the accounting of the transactions that will be made in the future.

Amendments to IAS 12 Deferred Taxes – Recovery of Underlying Assets

The amendment is effective for annual periods beginning on or after 1 January 2012. IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 *Investment Property*. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will, normally be, through sale. The Company does not have investment property so the amendment did not have any effect on the financial statements.

2 Summary of Significant Accounting Policies (continued)

2.1 Basis of Preparation (continued)

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

- c. Amendments to IFRSs affecting amounts reported in the financial statements (continued)

Amendments to IFRS 7 Disclosures - Transfers of Financial Assets

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

These amendments to IFRS 7 did not have a significant effect on the Company's disclosures. However, if the Company enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

- d. New and Revised IFRSs in issue but not yet effective and not early adopted by the Company and amendments and interpretation for the current standards:

Amendments to IAS 1	<i>Presentation of Items of Other Comprehensive Income¹</i>
Amendments to IAS 1	<i>Clarification of the Requirements for Comparative Information²</i>
IFRS 9	<i>Financial Instruments⁵</i>
IFRS 10	<i>Consolidated Financial Statements³</i>
IFRS 11	<i>Joint Arrangements³</i>
IFRS 12	<i>Disclosure of Interests in Other Entities³</i>
IFRS 13	<i>Fair Value Measurement³</i>
Amendments to IFRS 7	<i>Disclosures – Offsetting Financial Assets and Financial Liabilities³</i>
Amendments to IFRS 9 and IFRS 7	<i>Mandatory Effective Date of IFRS 9 and Transition Disclosures⁵</i>
Amendments to IFRS 10, IFRS 11 and IFRS 12	<i>Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guide³</i>
IAS 19 (as revised in 2011)	<i>Employee Benefits³</i>
IAS 27 (as revised in 2011)	<i>Separate Financial Statements³</i>
IAS 28 (as revised in 2011)	<i>Investments in Associates and Joint Ventures³</i>
Amendments to IAS 32	<i>Offsetting Financial Assets and Financial Liabilities⁴</i>
Amendments to IFRSs	<i>Annual Improvements to IFRSs 2009-2011 Cycle except for the amendment to IAS 1³</i>
IFRIC 20	<i>Stripping Costs in the Production Phase of a Surface Mine³</i>

¹ Effective for annual periods beginning on or after 1 July 2012.

² Effective for annual periods beginning on or after 1 January 2013 as part of the *Annual Improvements to IFRSs 2009-2011 Cycle* issued in May 2012.

³ Effective for annual periods beginning on or after 1 January 2013.

⁴ Effective for annual periods beginning on or after 1 January 2014.

⁵ Effective for annual periods beginning on or after 1 January 2015.

2 Summary of Significant Accounting Policies (continued)

2.1 Basis of Preparation (continued)

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

- d. New and Revised IFRSs in issue but not yet effective and not early adopted by the Company and amendments and interpretation for the current standards (continued):

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* are effective for the annual periods beginning on or after 1 July 2012. The amendments introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the ‘statement of comprehensive income’ is renamed the ‘statement of profit or loss and other comprehensive income’ and the ‘income statement’ is renamed the ‘statement of profit or loss’. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments can be applied retrospectively. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Amendments to IAS 1 Presentation of Financial Statements

(as part of the *Annual Improvements to IFRSs 2009-2011 Cycle* issued in May 2012)

The amendments to IAS 1 as part of the *Annual Improvements to IFRSs 2009-2011 Cycle* are effective for the annual periods beginning on or after 1 January 2013.

IAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to IAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

All recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

2 Summary of Significant Accounting Policies (continued)

2.1 Basis of Preparation (continued)

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

- d. New and Revised IFRSs in issue but not yet effective and not early adopted by the Company and amendments and interpretation for the current standards (continued):

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability, that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

The Company management anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these five Standards are described below.

IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. SIC-12 *Consolidation - Special Purpose Entities* will be withdrawn upon the effective date of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 replaces IAS 31 *Interests in Joint Ventures*. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 *Jointly Controlled Entities - Non-monetary Contributions by Venturers* will be withdrawn upon the effective date of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportional consolidation.

2 Summary of Significant Accounting Policies (continued)

2.1 Basis of Preparation (continued)

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

- d. New and Revised IFRSs in issue but not yet effective and not early adopted by the Company and amendments and interpretation for the current standards (continued):

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

In June 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these IFRSs for the first time.

These five standards together with the amendments regarding the transition guidance are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted provided all of these standards are applied at the same time.

IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 *Financial Instruments: Disclosures* will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Company management anticipates that IFRS 13 will be adopted in the Company's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

Amendments to IFRS 7 and IAS 32 *Offsetting Financial Assets and Financial Liabilities and the related disclosures*

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

2 Summary of Significant Accounting Policies (continued)

2.1 Basis of Preparation (continued)

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

- d. New and Revised IFRSs in issue but not yet effective and not early adopted by the Company and amendments and interpretation for the current standards (continued):

The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The Company management anticipates that the application of these amendments to IAS 32 and IFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

IAS 19 Employee Benefits

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net-interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset. The amendments to IAS 19 require retrospective application. However, it is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

Annual Improvements to IFRSs 2009 - 2011 Cycle issued in May 2012

The Annual Improvements to IFRSs 2009 - 2011 Cycle include a number of amendments to various IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to IFRSs include:

- Amendments to IAS 16 *Property, Plant and Equipment*; and
- Amendments to IAS 32 *Financial Instruments: Presentation*.

Amendments to IAS 16

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise. The Company management does not anticipate that the amendments to IAS 16 will have a significant effect on the Company's financial statements.

Amendments to IAS 32

The amendments to IAS 32 clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 *Income Taxes*. The Company management does not anticipate that the amendments to IAS 32 will have a significant effect on the Company's financial statements.

2 Summary of Significant Accounting Policies (continued)

2.1 Basis of Preparation (continued)

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

- d. New and Revised IFRSs in issue but not yet effective and not early adopted by the Company and amendments and interpretation for the current standards (continued):

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine (production stripping costs). Under the Interpretation, the costs from this waste removal activity (stripping) which provide improved access to ore is recognized as a non-current asset (stripping activity asset) when certain criteria are met, whereas the costs of normal on-going operational stripping activities are accounted for in accordance with IAS 2 *Inventories*. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset and classified as tangible or intangible according to the nature of the existing asset of which it forms part.

IFRIC 20 is effective for annual periods beginning on or after 1 January 2013. Specific transitional provisions are provided to entities that apply IFRIC 20 for the first time. However, IFRIC 20 must be applied to production stripping costs incurred on or after the beginning of the earliest period presented. The Company management anticipates that IFRIC 20 will have no effect to the Company's financial statements as the Company does not engage in such activities.

2.2 Consolidation

The Company has no subsidiaries and affiliates as of balance sheet date.

2.3 Segment reporting

One section is a distinguishable part related to Company's main operations or an economic environment where the Company's risks and benefits arising from its main operations can be distinguished (geographical segment). Since Turkey is the main geographical area that Company operates, segment reporting presented in Note 5 is related to the operations of Company not to the geographical areas.

2.4 Reserves in Foreign Currencies

For the purpose of the financial statements, the results and financial position of each entity are expressed in TL, which is the functional currency of the Company. In preparing the financial statements of the Company, transactions in foreign currencies are recognized at exchange rates prevailing at the transaction date. At each balance sheet date, monetary items denominated in foreign currencies are retranslated to Turkish Lira at the rates prevailing on the balance sheet date. Gains and losses arising from exchange rate transactions are recognized in the foreign exchange gain/loss accounts according to their positive or negative position.

2 Summary of Significant Accounting Policies (continued)

2.5 Property, Plant and Equipment

Property, plant and equipment are carried at cost, less any accumulated depreciation and impairment loss.

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

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

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

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

Depreciation for the tangible assets purchased before 1 January 2004 is calculated in accordance with double declining depreciation method at their historical cost. Depreciation for the tangible fixed assets purchased after 1 January 2004 is calculated in accordance with straight-line depreciation method at their historical costs.

Depreciation rates and estimated useful lives are as follows:

Tangible Assets	Estimated Useful Lives (years)	Depreciation Rates (%)
Furniture and fixture	3-10	10-33
Other tangible assets (including leasehold improvements)	5-20	5-20
Tangible assets acquired through finance leasing	4	25

2.6 Investment Properties

As at balance sheet date, the Company does not have any investment property.

2.7 Intangible assets

The Company's intangible assets consist of software. Intangible assets are recorded at cost in compliance with the TAS 38 – Intangible Assets.

The intangible assets are amortized at historical cost based on straight line amortization method by a range of 10% to 50%.

2 Summary of Significant Accounting Policies (continued)

2.8 Financial assets

Classification and measurement

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

Financial assets are classified in four categories; financial assets held for trading, available-for-sale financial assets, held to maturity investments, and loans and receivables.

Effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Financial assets held for trading purpose are measured at their fair values and gain/losses arising due to changes in the fair values of related financial assets are recorded in the statement of income. Interest income earned on trading purpose financial assets and the difference between their fair values and acquisition costs are recorded as interest income in the statement of income. In case of disposal of such financial assets before their maturities, the gains/losses on such disposal are recorded under trading income/losses.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables those are not interest earning are measured by discounting of future cash flows less impairment losses, and interest earning loans and receivables are measured at amortized cost less impairment losses.

Held to maturity investments are the financial assets with fixed maturities and fixed or pre-determined payment schedules that the Company has the intent and ability to hold until maturity, excluding loans and receivables.

Held-to-maturity investments are measured at amortized cost using effective interest method less impairment losses, if any.

Available-for-sale financial assets are the financial assets other than assets held for trading purposes, held-to-maturity investments and loans and receivables.

2 Summary of Significant Accounting Policies (continued)

2.8 Financial assets (continued)

Classification and measurement (continued)

Some equity instruments quoted in active markets and some debt instruments held by the Company are classified as available-for-sale, and are measured at fair value. The Company has some available-for-sale investments that do not have quoted prices in active markets and whose fair values cannot be reliably measured are stated at cost. Gains and losses arising from changes in fair value are recognized directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the profit or loss for the period.

Securities are recognized at the date of settlement.

Specific instruments

Loans to the policyholders are the securitized loans that are used by the policyholders with the security of their saving life insurance policies that have made premium payments throughout the period that is determined by the technical bases related to certified tariffs of saving life policies (this period is 3 years according to general conditions of life insurance). As at 31 December 2012, total amount of loans to the policyholders amounts to TL 584.229 (31 December 2011: TL 246.684).

Financial investments with risks on saving life policyholders are the financial assets invested against the savings of the life policyholders. Financial investments with risks on saving life policyholders could be classified as financial assets held for trading purpose, available for sale financial assets or held to maturity investments by considering the benefits of the policyholders and measured in accordance with the principles as explained above.

When such investments are classified as available-for-sale financial assets, 5% of the difference between the fair values and amortized costs, calculated by using effective interest method, of the financial assets is recorded under equity and the remaining 95% belonging to policyholders is recorded as ‘insurance technical provisions – life mathematical provisions’. As at 31 December 2012, 95% of the difference between fair values and amortized costs of those assets backing liabilities amounted to TL 3.896.847 (31 December 2011: TL 2.956.721) is recorded in life mathematical provisions.

Receivables from private pension operations consist of ‘capital advances given to pension investment funds’, ‘receivable from pension investment funds for fund management fees’, ‘entrance fee receivable from participants’ and ‘receivables from clearing house on behalf of the participants’. ‘Receivable from pension investment funds for fund management fee’ are the fees charged to the pension investment funds against for the administration of related pension investment funds which consist of fees which are not collected in the same day. Capital advances given to pension investments funds during their establishment are recorded under ‘capital advances given to pension investment funds’. ‘Receivables from the clearing house on behalf of the participants’ is the receivable from clearing house on fund basis against the collections of the participants. Same amount is also recorded as payables to participants for the funds sold against their collections under the ‘payables arising from private pension business’.

Derecognition

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

2 Summary of Significant Accounting Policies (continued)

2.9 Impairment on assets

Impairment on financial assets

Financial assets or group of financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the Company estimates the amount of impairment. Impairment loss incurs if, and only if, there is objective evidence that the expected future cash flows of financial asset or group of financial assets are adversely affected by an event(s) (“loss event(s)”) incurred subsequent to recognition. The losses expected to incur due to future events are not recognized even if the probability of loss is high.

Receivables from main operations are presented net of specific allowances for uncollectibility. Specific allowances are made against the carrying amounts of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and receivable to their recoverable amounts.

The recoverable amount of an equity instrument is its fair value. The recoverable amount of debt instruments and purchased loans measured to fair value is calculated as the present value of the expected future cash flows discounted at the current market rate of interest.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities, the reversal is recognized in the statement of income. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in equity.

Impairment on tangible and intangible assets

On each balance sheet date, the Company evaluates whether there is an indication of impairment of fixed assets. If there is an objective evidence of impairment, the asset’s recoverable amount is estimated in accordance with the TAS 36 – Impairment of Assets and if the recoverable amount is less than the carrying value of the related asset, a provision for impairment loss is made.

Discount and provision expenses of the period are disclosed in Note 47 – Others.

2.10 Derivative financial instruments

As at balance sheet date, the Company does not hold any derivative financial instruments.

2.11 Offsetting of financial assets

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

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

2.12 Cash and cash equivalents

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

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2 Summary of Significant Accounting Policies (continued)

2.13 Capital

As at 31 December 2012, the shareholder having direct or indirect control over the shares of Garanti Emeklilik ve Hayat Anonim Şirketi (“the Company”) is Türkiye Garanti Bankası AŞ (“Garantibank”) by %84,91 of the outstanding shares of the Company. Other shareholder having significant influence over the Company management is Achmea BV, Netherlands based company, by %15,00 participation ratio.

As at 31 December 2012 and 2011, the share capital and ownership structure of the Company are as follows:

Name	31 December 2012		31 December 2011	
	Nominal Value of the Shares (TL)	Percentage (%)	Nominal Value of the Shares (TL)	Percentage (%)
Türkiye Garanti Bankası A.Ş.	42.456.190	84,91	42.456.190	84,91
Achmea BV	7.500.000	15,00	7.500.000	15,00
Other	43.810	0,09	43.810	0,09
Paid-in Capital	50.000.000	100,00	50.000.000	100,00

Sources of the capital increases during the year

None.

Privileges on common shares representing share capital

None.

Registered capital system in the Company

None.

Repurchased own shares by the Company

None.

2.14 Insurance and investment contracts – classification

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

Investment contracts are those contracts which transfer financial risk without significant insurance risk. Financial risk is the risk of a possible future change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided, that it is not specific to a party to the contract, in the case of a non-financial variable.

Saving life products and private pension contracts of the Company are classified as investments contracts in accordance with the above definition. In saving life products, all the premiums received from policyholders are recognized as revenue within the framework of current regulations, portion of the premiums that is transferred to savings on behalf of the policyholders are charged to the profit or loss by recognizing a liability under life mathematical provisions. In private pension contracts, collected contributions of participants are recognized as a liability under “payables to participants”, the same amount is recorded as a receivable under “receivables from clearing house on behalf of the participants” account.

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2 Summary of Significant Accounting Policies (continued)

2.15 Insurance contracts and investment contracts with discretionary participation feature

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

- (i) that are likely to comprise a significant portion of the total contractual benefits,
- (ii) whose amount or timing is contractually at the discretion of the Issuer; and
- (iii) that are contractually based on:
 - (1) the performance of a specified pool of contracts or a specified type of contract;
 - (2) realized and/or unrealized investments returns on a specified pool of assets held by the Issuer;
 - or
 - (3) the profit or loss of the Company, Fund or other entity that issues the contract.

As at balance sheet date, the Company does not have any insurance or investment contracts with DPF.

2.16 Investment contracts without DPF

In the context of the saving life products, if the investment return, obtained from the savings of the policyholders which is invested by the Company, results a lower yield rate than the technical interest rate, the Company compensates the difference; if investment return results higher yield than the guaranteed technical interest rate, the difference is distributed to the policyholders as profit sharing bonus. Due to contractual and competitive constraints in practice, the Company has classified these contracts as investment contracts without DPF.

For such products, investment income obtained from assets backing liabilities is recorded within income statement or equity in accordance with the accounting policies mentioned above; and whole contract is presented as a liability under life mathematical provisions.

2.17 Liabilities

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

Payables from private pension business consist of payables to participants, participants’ temporary accounts, and payables to private pension agencies. The payables to participants is the account in which the contribution of participants that transferred to investments on behalf of private pension contract owners and income from these investments are recorded. The temporary account of participants includes the contributions of participants that have not yet been transferred to the investment. This account also includes the entrance fee deducted portion of the participants’ fund amounts, obtained from the fund share sales occur in the case of system leaves. This account consists of the amounts of participants that will be transferred to other private pension companies or participants’ own accounts. This account means Company’s liabilities to private pension agencies in return of their services.

2 Summary of Significant Accounting Policies (continued)

2.18 Income taxes

Corporate tax

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

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

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

In accordance with the tax legislation, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods. As at of balance sheet date, the Company does not have any deductible tax losses.

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

Deferred taxes

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

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

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

2 Summary of Significant Accounting Policies (continued)

2.18 Income taxes (continued)

Transfer pricing

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

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

2.19 Employee benefits

Employee termination benefits

In accordance with existing Turkish Labour Law, the Company is required to make lump-sum termination indemnities to each employee who has completed one year of service with the Company and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. The computation of the liability is based upon the retirement pay ceiling announced by the Government. The applicable ceiling amount as at 31 December 2012 is TL 3.125,01 (31 December 2011: TL 2.917,27).

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

	31 December 2012	31 December 2011
Interest Rate	7,03%	10,00%
Discount Rate	1,93%	4,66%
Expected Rate of Salary/Limit Increase	5,00%	5,10%

Other benefits

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

Provisions

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

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

2 Summary of Significant Accounting Policies (continued)

2.20 Revenue recognition

Written premiums

Written premiums represent premiums on policies written during the year net of taxes, premiums of the cancelled policies which were produced in prior years and premium ceded to reinsurance companies.

Commission income and expense

Commissions paid to the agencies related to the production of the insurance policies and the commissions received from the reinsurance firms related to the premiums ceded are recognized over the life of the contract by deferred commission income and deferred commission expense in the financial statements.

Commissions to intermediaries accrued during period for the production of private pension contracts are expensed in the related accounting period and are recognized under the pension business technical expense as operational expense.

Furthermore, in life and unemployment branches, income accrual for the profit commissions is calculated over the earnings of reinsurers. Profit commissions should be related to the rates determined by the existing contracts. Profit commissions depend on the Company's past performance and are not directly relevant to the production of the policies. Therefore, they are calculated as at period ends and recognized in the statement of income without subjecting to any deferral.

Interest income and expense

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

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

Trading income/expense

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

Dividends

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

2 Summary of Significant Accounting Policies (continued)

2.20 Revenue recognition (continued)

Income from private pension operations

Fund management fee is recognized as income, charged to the pension investment funds against the hardware, software, personnel and accounting services provided, and fee is shared between the Company and the portfolio managers in accordance with the agreement signed between parties. Total of fund management fee charged to the pension investment funds is recognized as “Fund management income” under technical income and portion of the portfolio manager is recognized as “Fund management expense” under technical expenses.

Management fee is levied on contributions of the participants up to %8 and recognized as income.

Entrance fees are received by the Company from participants during entry into the system and for the opening of a new private pension account. Entrance fees charged to the participants could not be higher than minimum wage that is valid on the date of the contract. In Practice and SME plans, a portion of entrance fees are collected in advance or by 12 installments and a portion of it is deferred on the condition that it does not exceed 5 years. In Prestige, Select and Garanti e-pension plans, entry fee is not taken during the entry but deferred to exit. In case where the participants leave the Company before 5 years, staying period, the deferred portion of the entry fee is charged as penalty. Hence, deferred portions of entry fees are accepted as contingent assets and are not recognized in the financial statements.

The difference in value of the pension investment fund shares, obtained due to capital advance on the date of establishment, to the date of selling of those shares to the participants is recorded in the income statement as “increase in value of capital allowances given as advances”.

2.21 Leasing transactions

The maximum period of the lease contracts is 4 years. Tangible assets acquired by way of finance leasing are recognized in tangible assets and the obligations under finance leases arising from the lease contracts are presented under finance lease payables account in the financial statements. In the determination of the related assets and liabilities, the lower of the fair value of the leased asset and the present value of leasing payments is considered. Financial costs of leasing agreements are expanded in lease periods at a fixed interest rate.

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

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

As at balance sheet date, the Company does not have any leasing transaction.

2.22 Dividend distribution

In the Ordinary General Meeting held on 20 April 2012, it has been resolved to transfer the net profit for the year 2011 amounted to TL 112.606.527 to reserves instead of distributing as dividend.

2 Summary of Significant Accounting Policies (continued)

2.23 Reserve for unearned premiums

According to the Communiqué on Technical Reserves the reserve for unearned premiums represents the proportions of the gross premiums written without deductions of commission or any other allowance, in a period that relate to the period of risk subsequent to the balance sheet date for all short- term insurance policies.

In the case of personal accident insurance, annual life insurance and life insurance which of the renewal date exceeds one year, reserve for unearned premiums is calculated for the portion of the remaining part which is left after deducting savings from gross premium written for the period.

Unearned premium reserves; The commencement date and expiry date of insurance is considered as a half day in the calculation of unearned Premium reserves under the Undersecretariat of Treasury's Communiqué No: 28356 "Adaptation of Technical Reserves Requirements" issued on 17 July 2012.

2.24 Reserve for unexpired risks

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

If the estimated claim premium ratio exceeds 95% in future periods for the estimated claim premium ratio of insurance branches, the amount calculated multiplying ratio exceeding 95% by net unearned premiums reserve is called net provision for unexpired risk reserve, and the amount calculated multiplying ratio exceeding 95% by gross unearned premiums reserve is called gross provision for unexpired risk reserve. As at 31 December 2012 and 31 December 2011, related test have not resulted any deficiency in the premiums of the Company.

2.25 Outstanding claims reserve

Outstanding claims reserve is provided for outstanding claims incurred and calculated but not actually paid in prior or current period, or outstanding claims for which the related amount is not calculated, carried at estimated value incurred but not reported.

All expenses associated with the completion of claim files, including expertise, advisory, litigation and communication expenses, are considered in the calculation of provision for accrued outstanding claims

The nature and requirements of incurred but not reported claims are calculated by using the actuarial chain ladder method or any other method prescribed by the Undersecretariat.

The Undersecretariat may determine the method (actuarial chain ladder method) to be used in the calculation of incurred but not reported claims for each insurance branches and companies. Method used in the calculation of incurred but not reported claims for each branch is disclosed in the notes to the financial statements.

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2 Summary of Significant Accounting Policies (continued)

2.25 Outstanding claim reserve (continued)

Weighted average amount of which is calculated by dividing incurred but not reported life claims related to prior periods into annual average coverage related to prior period is taken into account in the calculation of incurred but not reported life claims for life branch and incurred but not reported claims for the current period is calculated by multiplying the weighted average by annual average coverage related to the current period.

The calculation should be based on gross amounts. Existing or related reinsurance agreements reflect net amounts.

Accordingly, as of 31 December 2012, the Company has provided TL 9.083.694 of net outstanding claims provision in relation to incurred but not reported claims in its financial statements (31 December 2011: TL 4.397.572).

Under Technical Reserves regulations, difference of outstanding claims provision adequacy is calculated for newly established branches for five years from the beginning of branch operations.

Also, the Company's actuary can eliminate significant claims for branches having a total number of insurance files related to the main branch, excluding life branch, not exceeding 1/1000 or below, as well as for branches having less than 300 claims files under the Circular No: 2010-12. Therefore, companies are required to prepare their gross outstanding claims adequacy tables in terms of branches at each period-end based on the format determined by the Undersecretariat. For these branches, outstanding claims adequacy table is prepared for the following period. As of 31 December 2012, the Company is not required to provide any additional provisions in relation to outstanding adequacy testing performed at each period-end (31 December 2011: None).

2.26 Mathematical provisions

In accordance with the Communiqué on Technical Reserves, companies performing in life and non-life insurance branches are obliged to allocate adequate mathematical reserves based on actuarial basis to meet liabilities against policyholders and beneficiaries for long-term life, health and personal accident insurance contracts. Mathematical provisions are composed of actuarial mathematical provisions and profit sharing provisions.

Actuarial mathematical provisions, according to formulas and basis in approved technical basis of tariffs for over one year-length life insurance, are calculated by determining the difference between present value of liabilities that the Company meets in future and current value of premiums paid by policyholder in future (prospective method). In life insurance where saving plan premiums are also generated, actuarial mathematical provisions consist of total saving plan portions of premiums.

Provision for profit sharing consist of profit sharing calculated in previous years and a certain percentage of current period's income, determined in the approved profit sharing tariffs, obtained from the financial assets backing liabilities of the Company against the policyholders and other beneficiaries for the contracts which the Company is liable to give profit sharing.

The valuation method used in calculation of the profit to be shared for saving life contracts is the same with the valuation basis of portfolio on which assets on which the Company invests the provisions allocated due to liabilities against the beneficiaries are included in the framework of basis defined in the Note 2.8 above.

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2 Summary of Significant Accounting Policies (continued)

2.27 Equalization reserves

In accordance with the 9th article of the “Communiqué Related to Changes in the Communiqué on Technical Reserves for Insurance, Reinsurance and Private Pension Companies and the Related Assets That Should Be Invested Against Those Technical Reserves” issued in 28 July 2010 dated 27655 numbered Official Gazette, the companies have to reserve equalization provision for loans and earthquake guarantees provided in all branches to equalize the possible fluctuations and to cover catastrophic risks including additional guarantees.

Also, in accordance with the related article, equalization reserves should be calculated as 12% of the earthquake and loan net premiums of each year. Amounts paid for non-proportional reinsurance contracts should be considered as premiums ceded in the calculation of net premium. In the non-proportional reinsurance agreements including more than one branch, the amount of premium carried forward per each credit and earthquake branches is calculated with respect to its portion in the total premium amount unless another calculation method is determined by the Company. Allocation of provisions should be continued until it is reached the 150% of the highest amount of net premium written in the last five years. If reserve amount is less than the reserve amount reflected in the prior year’s balance as a result of the premium production following the related 5 year-period, the difference is recognized under the other reserve account in equity. The amount transferred to the equity can be taken as reserve, used for capital increase or payment of indemnities. In life insurance providing death benefit, the Company will be using its own statistical data in the calculation of balancing provision. The Companies which do not have data to make the necessary calculations will take the 11% of the death net premium as the earthquake premium and reserve the 12% of this amount. In the case of an earthquake or a loss in the loan branch and related financial year, provisions reserved for loan or earthquake guarantees can be used in the payment of indemnities. If claim is incurred, reinsurers share and the amount(s) less than the exemption limit set out in the agreement will not be deducted against equalization reserves.

According to Circular No:2012/1, “The Circular on the Use of Equalization Reserve and Additional Information about some other Circulars”, it is possible to use the equalization reserve provided for catastrophic claims on the reimbursement of catastrophic claims. Additionally, it is possible to net off the outstanding claims provided, based on expertise report or the documents provided from legal authorities in case of catastrophe, from the equalization reserve. However, the related net off should not be done from current year equalization reserve. Besides, incurred catastrophic claims should be recorded to related technical accounts that incurred catastrophic claims covered from the equalization reserve should be debited from balance sheet account of equalization reserve and credited to the changes in other technical reserves account. On the other hand, it is possible to not to include paid catastrophic claims provided from the equalization reserve to the calculation of IBNR.

Equalization provisions are presented under “other technical reserves” within long-term liabilities in the accompanying financial statements.

2.28 Related parties

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

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2.29 Earnings per share

In respect of TAS 33, "Earnings Per Share" standard, companies whose stocks are not traded in the stock market, do not have to disclose earnings per share. Since the Company's shares are not traded in the stock market, earnings per share are not disclosed in the accompanying financial statements.

2.30 Subsequent events

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

2.31 Comparative Information and Restatement of Prior Period Financial Statements

Financial statements of the Company have been prepared comparatively with the prior period in order to give information about financial position and performance. If the presentation or classification of the financial statements is changed, in order to maintain consistency, financial statements of the prior periods are also reclassified in line with the related changes.

3 Critical accounting estimates and judgments in applying accounting policies

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

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas at estimation uncertainty and critical judgment in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in the following Notes:

Note 4.1 – Management of insurance risk

Note 4.2 –Financial risk management

Note 6 – Tangible assets

Note 8 – Intangible assets

Note 10 – Reinsurance assets/liabilities

Note 11 – Financial assets

Note 12 – Loans and receivables

Note 14 – Cash and cash equivalents

Note 17 – Insurance liabilities and reinsurance assets

Note 17 – Deferred acquisition costs

Note 18 – Investment contract liabilities

Note 18- Receivables from private pension operations

Note 21 – Deferred income taxes

Note 23 – Provisions for other liabilities and charges

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4 Management of insurance and financial risk

4.1 Management of insurance risk

Pricing policies

The pricing policies and principles of the Company are as follows:

- i) While determining risk premiums, the amount of expected losses are considered and premium limits are determined accordingly.
- ii) During the study of pricing activities as a part of developing a new product, working of relevant units together within the Company is maintained by considering the needs of the customers and competition in the market.
- iii) It is aimed to achieve profitability in product basis and providing continuity.
- iv) Results of the pricing studies are compared with the prices of the competitors and international pricing cases.

When the distribution of the products in accordance with the premiums written for each product within last one year is analysed it is observed that premiums written for long term life and saving products have decreased, on the other hand, premiums written for one year term life products have increased. The Company management is in the opinion that this development in the production structure of the Company results positive effect on the profitability ratios. Pricing of the products by considering high profitability has protective effect on the future performance of the Company.

CSO-58, SM-53, CSO-80 and CSO-2001 mortality tables are used in the determination of the prices of life insurance products.

Insurance risk accepted by the Company in accordance with their total amounts and the quantity of the policies are presented in the below table. The Company management believes that the distribution of the insurance risk in terms of their total amounts and quantities are satisfactory.

	31 December 2012		31 December 2011	
	Insurance risk (TL)	Unit	Insurance risk (TL)	Unit
Death	27.795.918.976	2.570.902	24.353.017.382	3.013.098
Disability due to accident	18.727.271.598	2.315.842	16.952.717.885	2.794.591
Disability due to illness	1.404.797.268	313.069	1.639.542.909	579.212
Critical illness	1.862.949.792	80.831	1.366.644.899	67.965
Treatment costs due to accident	2.301.460.518	1.218.093	1.408.249.277	778.425
Involuntary unemployment	296.523.944	284.600	489.208.797	526.774
Death due to accident	222.889.741	5.570	300.225.339	13.913
Unemployment/Daily hospital benefit	99.325.755	377.506	92.319.942	372.438
Permanent disability benefit	23.813.973	1.538	91.090.000	9.109
Unemployment/ Temporary disability benefit	2.875.250	10.633	14.881.750	48.788

The Company gives importance to the diversification of the insurance risk.

Risk evaluation policies

The Company uses leader reinsurer's medical risk evaluation tools in its risk assessment processes. Each year check-up limits are reviewed and revised in accordance with the historical statistics. Besides, the Company also performs 'Medical' risk evaluation through the Company's medical doctor, 'Moral' risk evaluation through its risk evaluation and selling staff, and 'Financial' risk assessment for private applications and the credit life insurances developed against bank loans.

4 Management of insurance and financial risk (continued)

4.1 Management of insurance risk (continued)

Risk evaluation policies (continued)

Medical risk assessment

Medical risk assessment is the first step of risk assessment process. In order to learn and evaluate the health positions of the customers, they are requested to do check-up test in accordance with the conditions determined based on the amount of insured risk. Within this context, first evaluation is performed by the Company's medical doctor through medical assessment. Applicants carrying medical risk factors are rejected in accordance with the terms of agreement with reinsurers.

Moral risk assessment

In the second step of the risk assessment process, information about the customers' gender, living conditions, residence and the occupational information is obtained. During this process, sales force of the Company is expected to support related units of the Company for suspicious circumstances of the customers which are re-assessed.

Financial risk assessment

In the third step of the risk assessment process, requirement for customers' request for the amount of life insurance limits and their annual income or the amount of the loans requested from the banks being equal to each other is analysed. A big amount of the Company's portfolio consists of bank products, total amount of insured risk is expected to match with the total amount of banks' credit risks. Evaluation of the credit risks of the customers by the banks as a part of their credit facilities is an important step for the Company's financial risk assessment process.

Operational risk management

The network between the Company's information system and T. Garanti Bankası A.Ş.'s information system, main distribution channel of the Company, has been established which provides all applications and all policy processes to be followed by the Company through its system. Within the claim payment process of the Company, all documents are followed by the electronic archiving system by keeping the original ones.

Reinsurance policies

The Company cedes risk based life insurance policies (death and other additional insured risks) through the reinsurance of the risks. Since technical profitability of risk based life insurance policies is high, maximum retention amount determined based on actuarial calculations is held by the Company in its conservation and the amount exceeding maximum retention amount is ceded to reinsurance companies through surplus treaties. On the other hand, the Company keeps less risk in its conservation for uncertain risks (such as critical illness).

In the case of life loss, disability resulted by accident, for employees to remain unemployed in private sector, hospitalization of self employed; quota share reinsurance treaty with reinsurance share ratio of 100% is contracted for the unemployment insurance which provides income guarantee in each insurance year.

Moreover, each year the Company signs excess of loss reinsurance contracts to protect its conservation for catastrophic damages such as earthquake, flood, major public transportation accidents, major natural disasters or terrorist attacks.

4 Management of insurance and financial risk (continued)

4.1 Management of insurance risk (continued)

Reinsurance companies

The Company works with reinsurance companies in order to afford reinsurance assurance related to other collateral guarantee given under the life insurance and non life insurance branches for preservation of financial structure and allocation of professional risk considering the existing and varying product structure. In this context, Company's job acceptance capacity and elasticity are increased with the reinsurance agreements in 2012 and it is provided that the risk is spreaded to different reinsurers by working with different reinsurance companies. Serving to customers with different product structures is intended by working with varying reinsurers.

The decisive criteria for the relationship with reinsurers are as follows:

- i) Financial strength,
- ii) Long-term business relationship approach,
- iii) Competitive prices
- iv) Capacity provided for facultative and un-proportional (catastrophic) reinsurance contracts.
- v) Opportunities and information provided in risk assessment process, product development, trainings, information about new developments in the sector and etc.

Performance of the reinsurance companies in treaty agreements is evaluated for each year by considering the payment performance of the reinsurers for the claims paid and other due payables to the Company. Performance of the reinsurance companies in facultative agreements is evaluated by considering capacity provided to the Company, speed in operational reinsurance transactions, and technical and market information provided to the Company. In case where the performance of the reinsurer is not assessed as adequate, the Company decides on to engage with alternative reinsurance companies.

As a result of stable and consistent pricing and risk acceptance policies, risk assessment policies and conditions agreed with the treaty reinsurers enable the Company to insure the risk in higher amounts than the market averages.

Münchener Rückversicherungs AG ("Munich Re"), located in Munich, is the leader reinsurance firm of the Company for life insurance policies. Milli Reasürans TAŞ ("Milli Re") is the second reinsurance firm in terms of its reinsurance share. The third big reinsurance firm is Mapfre Re, Compañia de Reaseguros, SA, ("Mapfre Re") located in Madrid. And, fourth reinsurance firm is French based company Scor Global.

In unemployment insurance, the Company has engaged quota share reinsurance treaties with 100% reinsurance share ratio with BNP Paribas Cardif Hayat Sigorta AŞ ("Cardif") and Scor Global starting from 2012.

Recent ratings of these companies given by international institutions are as follows:

Reinsurer	Standard & Poors			AM Best		
	Rating	Outlook	Date	Rating	Outlook	Date
Munich Re	AA-	Stable	27 September 2011	A+	Stable	27 October 2011
Milli Re	trAA	-	31 July 2012	B+	Stable	10 October 2012
Scor Global Re	A	Stable	4 June 2012	A	Stable	15 March 2012
Mapfre Re	AA (*)	Negative	25 October 2012	A	Negative	26 June 2012

4 Management of insurance and financial risk (continued)

4.1 Management of insurance risk (continued)

Reinsurance companies (continued)

The Company's ratings, provide information about the tracking the financial structure of companies, allow monitoring the sustainability of long term business relationship, and the minimum capital determination is done related to the communiques on financial structure and capital adequacy of insurance, reinsurance and pension fund companies.

4.2 Financial risk management

Introduction and overview

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

- credit risk
- liquidity risk
- market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors monitors the effectiveness of the risk management system through the internal audit department.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

Credit risk

Credit risk is basically defined as the possibility that a counterparty will fail to meet its obligations in accordance under agreed terms of a contract. The main financial statement balances that the Company has credit risk exposure is as follows:

- cash at banks
- other cash and cash equivalents
- available for sale financial assets
- financial assets held for trading
- investments with risks on policyholders
- premium receivables from policyholders
- receivables from intermediaries (agencies)
- receivables from private pension operations; receivables from pension investment funds and participants
- receivables from reinsurance companies related to claims paid and commissions accrued
- reinsurance shares of insurance liabilities
- due from related parties
- other receivables

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4 Management of insurance and financial risk (continued)

4.2 Financial risk management (continued)

Credit risk (continued)

Financial assets subject to credit risk of the company mainly consist of Eurobonds issued by the Republic of Turkey Government and private sector bills; time and demand deposits held in banks and financial institutions of Turkey. These receivables are not to be considered as having high credit risk.

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

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

	31 December 2012	31 December 2011
Receivables from main operations (Note 12)	3.410.867.880	2.414.708.552
Cash and cash equivalents (Note 14)	672.137.008	500.187.457
Financial assets and financial investments with risks on policyholders (Note 11)	82.938.137	56.264.640
Reinsurer share in outstanding claims reserve (Note 10), (Note 17)	14.157.149	8.408.950
Due from related parties (Note 12)	5.182.582	3.712.017
Other receivables	49.572	47.036
Total	4.185.332.328	2.983.328.652

As at 31 December 2012 and 2011, the aging of the receivables from main operations is as follows:

	31 December 2012		31 December 2011	
	Gross amount	Provision	Gross amount	Provision
Not past due	3.388.801.151	-	2.398.661.901	-
Past due 0-30 days	13.718.056	-	5.311.113	-
Past due 31-60 days	638.598	-	1.832.045	-
Past due 61-180 days (*)	1.528.582	(217.361)	2.791.527	(217.361)
Past due 181-365 days	1.305.417	(86.479)	1.732.927	(21.541)
More than one year	5.179.916	-	4.617.941	-
Total	3.411.171.720	(303.840)	2.414.947.454	(238.902)

(*) Provision for the impairment of entrance fees which could not be collected yet and other receivables related to the pension operations amounted to TL 217.361 (31 December 2011: TL 217.361), presented as netted off from receivables from private pension operations in the accompanying financial statements.

The Company cancels any life premiums that are accrued but not collected within a certain period of time, and deducts them from the premium income and from the receivables from insurance activities.

The Company books provision for the portion of entry fee receivables which is accrued during the entry and will be collected in maximum 12 installments. This portion consists of accumulated participant amount of the participants and amount that can not be offset.

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4 Management of insurance and financial risk (continued)

4.2 Financial risk management (continued)

Credit risk (continued)

The movement of the provision for receivables from private pension operations and insurance operations are as follows:

	1 January – 31 December 2012	1 January– 31 December 2011
Provision for receivables from insurance and private pension operations at the beginning of the year	(238.902)	(260.181)
Collections during the year	-	137.225
Provision (provided) / released during the year	(64.938)	(115.946)
Provision for receivables from insurance and private pension operations at the end of the year	(303.840)	(238.902)

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash commitments associated with financial instruments.

Management of the Liquidity Risk

The Company considers the maturity match between asset and liabilities for the purpose of avoiding liquidity risk and ensure that it will always have sufficient liquidity to meet its liabilities when due.

The following table provides an analysis of assets and liabilities of the Company into relevant maturity groupings based on the remaining periods to repayments:

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4 Management of insurance and financial risk (continued)

4.2 Financial risk management(continued)

Liquidity risk (continued)

	31 December 2012	Carrying value	Unallocated	No Maturity	Up to 1 month	1 to 3 Month	3 to 6 month	6 to 12 month	More than 1 year
Cash and cash equivalents	-	672.137.008	-	2.912.499	323.956.625	284.072.720	61.195.164	-	-
Financial assets and financial investments with risks on policyholders	263.221	82.938.137	-	-	26.006.517	-	17.185.089	67.068	39.416.242
Receivables from main operations	3.325.079.657	3.410.867.880	-	-	38.360.928	17.264.264	17.759.901	12.403.180	50
Due from related parties	-	5.182.582	-	-	5.182.582	-	-	-	-
Other receivables	-	45.403	-	-	45.403	-	-	-	-
Prepaid expenses and income accruals	-	35.944.595	-	-	5.634.273	9.594.531	11.335.603	9.380.188	-
Other current assets	-	478	-	-	-	478	-	-	-
Deferred tax asset	1.112.001	1.112.001	-	-	-	-	-	-	-
Deposits and guarantees given	-	4.169	-	-	-	-	-	-	4.169
Tangible assets	2.981.301	2.981.301	-	-	-	-	-	-	-
Intangible assets	12.644.442	12.644.442	-	-	-	-	-	-	-
Total assets	4.223.857.996	4.223.857.996	3.342.080.622	2.912.449	399.186.328	310.931.993	107.475.657	21.850.436	39.420.461
Financial liabilities	-	812.407	-	-	812.407	-	-	-	-
Payables arising from main operations	3.324.117.749	3.398.421.509	-	-	60.433.367	4.966.185	5.162.789	3.741.419	-
Due to related parties	-	5.888.688	-	-	5.888.688	-	-	-	-
Other liabilities	-	1.104.554	-	-	1.104.554	-	-	-	-
Insurance technical provisions (*)	95.120.278	188.647.020	-	-	14.618.889	25.090.306	29.696.739	24.120.808	-
Investment contract liabilities (**)	-	37.679.291	-	-	-	-	-	-	37.679.291
Provisions for taxes and other similar obligations	-	12.226.305	-	-	12.226.305	-	-	-	-
Provisions for other risks	-	2.379.476	-	-	-	-	-	2.238.167	141.309
Other Liabilities and Provisions	-	5.385.796	-	-	2.320.011	944.675	1.144.662	976.448	-
Equity	571.312.950	571.312.950	-	-	-	-	-	-	-
Total liabilities	4.223.857.996	4.223.857.996	3.990.550.977	-	97.404.221	31.001.166	36.004.190	31.076.842	37.820.600

(*) Outstanding claims reserve is presented within unallocated column in the table above.

(**) Investment contracts including savings and profit sharing provisions for saving life products are presented in more than 1 year column in the table above.

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4 Management of insurance and financial risk (continued)

4.2 Financial risk management(continued)

Liquidity risk (continued)

	31 December 2011	Carrying Value	Unallocated	No Maturity	Up to 1 month	1 to 3 Month	3 to 6 month	6 to 12 month	More than 1 year
Cash and cash equivalents		500.187.457	-	3.749.389	104.547.670	285.969.813	105.920.585	-	-
Financial assets and financial investments with risks on policyholders		56.264.640	263.221	-	25.062.915	1.059	-	-	30.937.445
Receivables from main operations		2.414.708.552	2.345.409.580	-	15.431.138	17.652.361	20.177.919	16.024.410	13.144
Due from related parties		3.712.017	-	-	3.712.017	-	-	-	-
Other receivables		42.867	-	-	42.867	-	-	-	-
Prepaid expenses and income accruals		33.554.896	-	-	5.489.719	9.282.682	10.502.607	8.279.888	-
Other current assets		36.339	-	-	-	36.339	-	-	-
Deferred tax asset		573.446	573.446	-	-	-	-	-	-
Deposits and guarantees given		4.169	-	-	-	-	-	-	4.169
Tangible assets		3.160.627	3.160.627	-	-	-	-	-	-
Intangible assets		11.483.196	11.483.196	-	-	-	-	-	-
Total assets		3.023.728.206	2.360.890.070	3.749.389	154.286.326	312.942.254	136.601.111	24.304.298	30.954.758
Financial liabilities		-	-	-	-	-	-	-	-
Payables arising from main operations		2.373.430.489	2.345.002.059	-	3.736.190	12.652.651	8.805.417	3.234.172	-
Due to related parties		5.270.211	-	-	5.270.211	-	-	-	-
Other liabilities		900.152	-	-	900.152	-	-	-	-
Insurance technical provisions (*)		117.490.705	59.890.279	-	9.529.303	16.287.331	18.181.033	13.602.759	-
Investment contract liabilities (**)		41.995.869	-	-	-	-	-	-	41.995.869
Provisions for taxes and other similar obligations		14.846.850	-	-	14.846.850	-	-	-	-
Provisions for other risks		2.091.809	-	-	-	-	-	1.941.188	150.621
Other Liabilities and Provisions		25.572.594	-	-	5.700.865	6.567.942	7.513.570	5.790.217	-
Equity		442.129.527	442.129.527	-	-	-	-	-	-
Total liabilities		3.023.728.206	2.847.021.865	-	39.983.571	35.507.924	34.500.020	24.568.336	42.146.490

(*) Outstanding claims reserve is presented within unallocated column in the table above.

(**) Investment contracts including savings and profit sharing provisions for saving life products are presented in more than 1 year column in the table above.

4 Management of insurance and financial risk (continued)

4.2 Financial risk management (continued)

Market risk

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

Currency risk

The Company is exposed to currency risk through its transactions denominated in foreign currencies.

Foreign exchange gains and losses due to foreign currency denominated transactions are recognized in the period of the transaction. Monetary assets and liabilities denominated in foreign currencies are measured at the exchange rates ruling at balance sheet date with the resulting exchange differences recognized in the statement of income as foreign exchange gains or losses.

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

31 December 2012	US Dollar	Euro	Other Currencies	Total
Cash and cash equivalents	15.950.721	5.591	341	15.956.653
Financial assets and financial investments with risks on policyholders	17.798.575	6.425.124	-	24.223.699
Receivables from main operations	2.357.871	194.346	558	2.552.775
Total foreign currency denominated assets	36.107.167	6.625.061	899	42.733.127
Payables arising from main operations	(94.684)	(32.920)	(285)	(127.889)
Insurance technical provisions	(1.884.089)	(625.706)	(6.216)	(2.516.011)
Investment contract liabilities	(32.408.877)	(5.270.414)	-	(37.679.291)
Total foreign currency denominated liabilities	(34.387.650)	(5.929.040)	(6.501)	(40.323.191)
Balance sheet position	1.719.517	696.021	(5.602)	2.409.936

31 December 2011	US Dollar	Euro	Other Currencies	Total
Cash and cash equivalents	13.607.568	4.642	-	13.612.210
Financial assets and financial investments with risks on policyholders	24.715.155	6.222.290	-	30.937.445
Receivables from main operations	1.471.817	130.150	1.693	1.603.660
Total foreign currency denominated assets	39.794.540	6.357.082	1.693	46.153.315
Payables arising from main operations	(55.476)	(23.797)	(385)	(79.658)
Insurance technical provisions	(2.252.512)	(611.360)	(11.626)	(2.875.498)
Investment contract liabilities	(36.262.503)	(5.733.366)	-	(41.995.869)
Total foreign currency denominated liabilities	(38.570.491)	(6.368.523)	(12.011)	(44.951.025)
Balance sheet position	1.224.049	(11.441)	(10.318)	1.202.290

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

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4 Management of insurance and financial risk (continued)

4.2 Financial risk management (continued)

Market risk (continued)

Transactions denominated in foreign currencies are recorded at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are measured as TL at the purchasing exchange rates announced by the Central Bank of Turkey ruling at 31 December 2012. Only life mathematical provisions and loans to the policyholders are measured at effective selling rates announced by the Central Bank of Turkey as disclosed on the face of policies.

Foreign exchange rates used for the translation of foreign currency denominated monetary assets and liabilities as at balance sheet date are as follows:

31 December 2012	US Dollar	Euro
Foreign currency rate used in translation of balance sheet items	1,7826	2,3517
Foreign currency rates used in calculation of life mathematical provision and loans to the policyholders	1,7939	2,3665
31 December 2011	US Dollar	Euro
Foreign currency rate used in translation of balance sheet items	1,8889	2,4438
Foreign currency rates used in calculation of life mathematical provision and loans to the policyholders	1,9008	2,4593

Exposure to currency risk

A 10 percent devaluation of the TL against the following currencies as at 31 December 2012 and 31 December 2011 would have increased or decreased 12 month period of equity and profit or loss (excluding tax effects) by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. In case of a 10 percent revaluation of the TL against the following currencies, the effect will be in opposite direction.

	31 December 2012		31 December 2011	
	Profit or loss	Equity^(*)	Profit or loss	Equity^(*)
US Dollar	140.834	171.952	93.009	122.405
Euro	54.249	69.602	(6.046)	(1.144)
Others	(560)	(560)	(1.032)	(1.032)
Total, net	194.523	240.994	85.931	120.229

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

Exposure to interest rate risk

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

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4 Management of insurance and financial risk (continued)

4.2 Financial risk management (continued)

Market risk (continued)

As at balance sheet date; the interest rate profile of the Company's interest earning financial assets and interest bearing financial liabilities are detailed below:

	31 December 2012	31 December 2011
Fixed income financial assets		
Financial assets with fixed interest rates:		
Banks (time deposit) (Not 14)	617.538.181	489.471.023
Financial investments with risks on policyholders – Available for sale financial assets – Eurobonds (Note 11)	24.223.699	30.937.445
Financial assets held for trading purpose – government bonds (Note 11)	140.064	1.059
Financial assets held for trading purpose – private sector bills (Note 11)	36.204.549	25.054.880
Loans to the policyholders (Note 12)	584.299	246.684
Financial assets with variable interest rates:		
Financial assets held for trading purpose – private sector bills (Note 11)	4.225.479	-
Financial assets held for trading purpose – government bonds (Note 11)	5.815.768	-
Non-fixed income financial assets:		
Financial assets held for trading purpose – private sector bills (Note 11)	8.009.780	-
Financial assets held for trading purpose – investment funds (Note 11)	4.055.577	8.035
Financial liabilities:	None	None.

Interest rate sensitivity of financial instruments

Interest rate sensitivity of the statement of income is the effect of the assumed changes in interest rates on the fair values of financial assets at fair value through profit or loss and on the net interest income as at and for the year ended 31 December 2012 and 31 December 2011 of the floating rate non-trading financial assets and financial liabilities held at 31 December 2012 and 31 December 2011. Interest rate sensitivity of equity is calculated by revaluing available-for-sale financial assets at 31 December 2012 and 31 December 2011 for the effects of the assumed changes in interest rates. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The table below demonstrating the effect of changes in interest rates on statement of income and equity excludes tax effects on related loss or income.

	Statement of income		Equity ^(*)	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2012				
Financial assets held for trading purpose	(102.054)	103.648	(102.054)	103.648
Available for sale financial assets			(122.445)	124.887
Financial investments with risks on policyholders (Available for sale financial assets)	-	-	(45.537)	50.162
Total, net	(102.054)	103.648	(270.036)	278.697
	Income statement		Equity ^(*)	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2011				
Financial assets held for trading purpose	(16.176)	16.334	(16.176)	16.334
Financial investments with risks on policyholders (Available for sale financial assets)	-	-	(50.859)	55.308
Total, net	(16.176)	16.334	(67.035)	71.642

^(*) Equity effect also includes 100 base point (bp) effect of increase and decrease in interest rates on profit or loss.

4 Management of insurance and financial risk (continued)

4.2 Financial risk management (continued)

Market risk (continued)

Fair value information

The estimated fair values of financial instruments have been determined using available market information, and where it exists, appropriate valuation methodologies. The Company has classified its financial assets as whether held for trading purpose or available for sale and measured its financial assets at their fair values at the end of the year.

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

Classification relevant to fair value information

IFRS 7 – Financial instruments: Disclosures requires the classification of fair value measurements into a fair value hierarchy by reference to the observability and significance of the inputs used in measuring fair value of financial instruments measured at fair value to be disclosed. This classification basically relies on whether the relevant inputs are observable or not. Observable inputs refer to the use of market data obtained from independent sources, whereas unobservable inputs refer to the use of predictions and assumptions about the market made by the Company. This distinction brings about a fair value measurement classification generally as follows:

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

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

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

Classification requires using observable market data if possible. Fair value of financial assets and liabilities shown in the financial statements at fair value are presented below:

	31 December 2012			Total
	Level 1	Level 2	Level 3	
Financial assets				
Available for sale financial assets (Note 11) (*)	13.825.548	-	-	13.825.548
Financial assets held for trading (Note 11)	44.625.669	-	-	44.625.669
Financial investments with risks on policyholders classified as available for sale (Note 11)	24.223.699	-	-	24.223.699
Total financial assets	82.674.916	-	-	82.674.916

(*)The Company's has equity instruments that are classified as available-for-sale investments that do not have quoted prices in an active market 263.221 TL and whose fair values cannot be reliably measured are stated at cost (31 December 2011: 263.221 TL).

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4 Management of insurance and finance risk (continued)

4.2 Financial risk management (continued)

Market risk (continued)

	31 December 2010			Total
	Level 1	Level 2	Level 3	
Financial assets				
Available for sale financial assets (Note 11) (*)	(*)	-	-	(*)
Financial assets held for trading (Note 11)	25.063.974	-	-	25.063.974
Financial investments with risks on policyholders classified as available for sale (Note 11)	30.937.445	-	-	30.937.445
Total financial assets	56.001.419			56.001.419

(*)The Company's equity instruments that are classified as available-for-sale investments amounting to TL 263.221, that do not have quoted prices in an active market and whose fair values cannot be reliably measured are stated at cost (31 December 2011: The Company's equity instruments that are classified as available-for-sale investments TL 263.221, that do not have quoted prices in an active market and whose fair values cannot be reliably measured are stated at cost)

Capital management

The Company's capital management policies include the following:

- To comply with the insurance capital requirements required by the Undersecretariat of Treasury;
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To provide an adequate return to shareholders by pricing insurance contracts in line with the level of risk assumed.

In accordance with the "Circular Regarding the Measurement and Assessment of Capital Adequacy of Insurance, Reinsurance and Private Pension Companies" issued by the Undersecretariat of Treasury on 19 January 2008 dated and 26761 numbered Official Gazette, the Company measured its minimum capital requirement as at 31 December 2012 as TL 65.348.313. As at 31 December 2012, the Company's total equity in its statutory financial statements amounted to TL 576.630.481 which is above the minimum capital requirement amount. (Company measured its minimum capital requirement as at 31 December 2011 as TL 75.202.644. As at 31 December 2011, the Company's total equity in its statutory financial statements amounted to TL 445.663.570 which is above the minimum capital requirement amount.)

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4 Management of insurance and financial risk (continued)

4.2 Financial risk management (continued)

Gains and losses from financial instruments

Financial gains and losses recognized in the statement of income	1 January-31 December 2012	1 January -31 December 2011
Interest income from bank deposits	55.108.080	39.024.204
Interest income/(expense) from financial assets	6.688.637	3.238.069
Income from investment funds	42.217	184.119
Gains from trading of debt securities	457.838	1.092.857
Income from Turkish Derivatives Exchange transactions	9.842	929.464
Foreign exchange gains (***) (****)	19.091.558	62.636.916
Financial gains (*)	81.398.172	107.105.629
Foreign exchange losses (****)	(21.432.691)	(54.425.603)
Losses from trading of debt securities	(249.289)	(991.385)
Losses from Turkish Derivatives Exchange transactions	(266)	(5.438)
Others	(114.084)	(69.172)
Financial losses (**)	(21.796.330)	(55.491.598)
Financial gains and losses recognized in the statement of income. net	59.601.842	51.614.031

(*) Total financial gains also include life investment income.

(**) Total financial losses do not include depreciation and amortisation expenses.

(***) Includes the foreign exchange income and losses shown under life branch investment income.

Financial gains and losses recognized in equity	31 December 2012	31 December 2011
Interest income from financial assets	514.230	342.983
Deferred tax effect	(102.847)	(68.597)
Financial gains and losses recognized in equity, net	411.383	274.386

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2012

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5 Segment reporting

Segment reporting is presented based on the Company's operations and geographical segments. The Company's main segment reporting is based on the Company's operations.

The related assets and liabilities by branches and operation results are prepared according to the accounting interpretations explained under "Summary of Significant Accounting Policies".

Geographical segment reporting

The main geographical segment the Company operating in, is Turkey, so the Company does not disclose geographical segment reporting.

Operating segments

31 December 2012	Life	Non-Life	Private Pension	Other/ Unallocated	Total
Continuing operations					
Technical income	207.567.462	3.664	109.666.848	-	317.237.974
Technical expense	(127.633.276)	(24.161)	(68.806.579)	-	(196.494.016)
Other gains and losses, total	-	-	-	41.795.239	41.795.239
Technical net profit from ongoing operations	79.904.186	(20.497)	40.860.269	41.795.239	162.539.197
Profit before taxes	79.904.186	(20.497)	40.860.269	41.795.239	162.539.197
Income tax expense	-	-	-	(33.492.771)	(33.492.771)
Profit for the period (loss)	79.904.186	(20.497)	40.860.269	8.302.468	129.046.426

Other segment information

Depreciation expense (Note 6)					1.359.672
Amortisation expense (Note 8)					7.558.990

31 December 2012					
Segment assets	132.029.265	-	3.338.851.594	752.977.136	4.223.857.995
Total segment assets	132.029.265	-	3.338.851.594	752.977.136	4.223.857.995
Segment liabilities	253.138.312	608	3.375.219.923	595.499.153	4.223.857.995
Total segment liabilities	253.138.312	608	3.375.219.923	595.499.153	4.223.857.995

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5 Segment reporting (continued)**Operating segments (continued)**

31 December 2011	Life	Non-Life	Private Pension	Other/ Unallocated	Total
Continuing operations					
Technical income	166.292.028	2.349	85.589.184	-	251.883.559
Technical expense	(84.337.666)	(20.261)	(58.059.051)	-	(142.416.976)
Other gains and losses, total	-	-	-	32.277.530	32.277.530
Technical net profit from ongoing operations	81.954.362	(17.912)	27.530.133	32.277.530	141.744.113
Profit before taxes	81.954.362	(17.912)	27.530.133	32.277.530	141.744.113
Income tax expense	-	-	-	(29.137.586)	(29.137.586)
Profit for the period	81.954.362	(17.912)	27.530.133	3.139.944	112.606.527

Other segment information

Depreciation expense (Note 6)					1.148.877
Amortisation expense (Note 8)					6.758.578

31 December 2011					
Segment assets	111.680.105	10	2.354.879.389	557.168.702	3.023.728.206
Total segment assets	111.680.105	10	2.354.879.389	557.168.702	3.023.728.206
Segment liabilities	184.307.312	3.048	2.348.606.703	490.811.143	3.023.728.206
Total segment liabilities	184.307.312	3.048	2.348.606.703	490.811.143	3.023.728.206

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6 Tangible assets

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

	1 January 2012	Additions	Disposals	31 December 2012
Cost:				
Furniture and fixtures	8.034.334	1.180.346	-	9.214.680
Other tangible assets (including leasehold improvements)	1.898.379	-	-	1.898.379
Tangible assets acquired through finance leasing	168.464	-	-	168.464
	10.101.177	1.180.346	-	11.281.523
Accumulated depreciation:				
Furniture and fixtures	(5.100.799)	(1.258.003)	-	(6.358.802)
Other tangible assets (including leasehold improvements)	(1.671.287)	(101.669)		(1.772.956)
Tangible assets acquired through finance leasing	(168.464)			(168.464)
	(6.940.550)	(1.359.672)	-	(8.300.222)
Net book value	3.160.627			2.981.301

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

	1 January 2011	Additions	Disposals	31 December 2011
Cost:				
Furniture and fixtures	6.199.419	1.992.632	(157.717)	8.034.334
Other tangible assets (including leasehold improvements)	1.768.718	129.661	-	1.898.379
Tangible assets acquired through finance leasing	168.464	-	-	168.464
	8.136.601	2.122.293	(157.717)	10.101.177
Accumulated depreciation:				
Furniture and fixtures	(4.203.562)	(1.054.954)	157.717	(5.100.799)
Other tangible assets (including leasehold improvements)	(1.577.363)	(93.923)		(1.671.286)
Tangible assets acquired through finance leasing	(168.465)			(168.465)
	(5.949.390)	(1.148.877)	157.717	(6.940.550)
Net book value	2.187.211			3.160.627

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

There are no finance lease re-payments during the current and the prior year.

7 Investment properties

None.

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8 Intangible assets

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

	1 January 2012	Additions	Disposals	31 December 2012
Cost:				
Rights	334.371	-	-	334.371
Other intangible assets(*)	37.855.462	8.750.236	-	46.605.698
	38.189.833	8.750.236	-	46.940.069
Accumulated amortisation:				
Rights	(192.263)	(142.108)	-	(334.371)
Other intangible assets(*)	(26.514.374)	(7.446.882)	-	(33.961.256)
	(26.706.637)	(7.588.990)	-	(34.295.627)
Net book value	11.483.196			12.644.442

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

	1 December 2011	Additions	Disposals	31 December 2011
Cost:				
Rights	-	334.371	-	334.371
Other intangible assets(*)	29.740.581	8.114.881	-	37.855.462
	29.740.581	8.449.252	-	38.189.833
Accumulated amortisation:				
Rights		(192.263)	-	(192.263)
Other intangible assets(*)	(19.948.059)	(6.566.315)	-	(26.514.374)
	(19.948.059)	(6.758.578)	-	(26.706.637)
Net book value	9.792.522			11.483.196

(*) Other intangible assets consist of computer softwares

9 Investments in associates

None.

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10 Reinsurance assets/(liabilities)

Outstanding reinsurance assets and liabilities of the Company, as a ceding company in accordance with the existing reinsurance contracts are as follows:

Reinsurance assets	31 December 2012	31 December 2011
Reinsurance share of unearned premiums reserve (Note 17)	19.841.398	48.389.681
Reinsurance share of outstanding claims reserve (Note 17)	14.157.149	8.408.950
Receivables from reinsurers (Note 12)	1.082.634	706.018
Total	35.081.181	57.504.649

There is not any impairment losses recognized for reinsurance assets.

Reinsurance liabilities	31 December 2012	31 December 2011
Deferred commission income (Deferred income) (Note 19)	3.611.023	24.044.819
Payables to the reinsurers related to premiums ceded (Note 19)	7.115.539	10.353.936
Total	10.726.562	34.398.755

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

	1 January– 31 December 2012	1 January – 31 December 2011
Ceded premiums to reinsurers during the period (Note 17)	(29.797.678)	(87.856.434)
Reinsurance share of unearned premiums reserve, at the beginning of the period (Note 17)	(48.389.681)	(46.023.149)
Reinsurance share of unearned premiums reserve, at the end of the period (Note 17)	19.841.398	48.389.681
Ceded premiums to reinsurers (Note 17)	(58.345.961)	(85.489.902)
Reinsurance share of claims paid, during the period (Note 17)	21.711.151	15.533.808
Reinsurance share of outstanding claims reserve, at the beginning of the period (Note 17)	(8.408.950)	(8.970.526)
Reinsurance share of outstanding claims reserve, at the end of the period (Note 17)	14.157.149	8.408.950
Reinsurance share of claims incurred (Note 17)	27.459.350	14.972.232
Commission income accrued from reinsurers during period	10.623.155	60.254.280
Deferred commission income, at the beginning of the period (Note 19)	24.044.819	22.890.687
Deferred commission income, at the end of the period (Note 19)	(3.611.023)	(24.044.819)
Commission income earned from reinsurers	31.056.951	59.100.148
Profit Sharing commissions calculated at the end of the period	-	-
Total, net	(821.157)	(11.417.522)

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11 Financial assets

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

Financial assets and financial investments with risk on policyholders	31 December 2012	31 December 2011
Financial assets held for trading	44.625.669	25.063.974
Financial investments with risks on saving life policyholders classified as available for sale	24.223.699	30.937.445
Available for sale financial assets	14.088.769	263.221
Total	82.938.137	56.264.640

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

	31 December 2012		
	Cost	Fair value	Carrying value
Debt instruments:			
Government Bonds – TL	138.493	140.064	140.064
	138.493	140.064	140.064
<u>Other non-fixed income financial assets:</u>			
Private sector bills (*)	39.011.891	40.430.028	40.430.028
Investment funds	4.050.097	4.055.577	4.055.577
	43.061.988	44.485.605	44.485.605

(*) Private sector bills is composed of T. Garanti Bankası A.Ş., Akbank T.A.Ş., Akfen Holding A.Ş and Otokoç Otomotiv Sanayi ve Ticaret A.Ş private sector bills.

Total financial assets held for trading purpose	43.200.481	44.625.669	44.625.669
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	31 December 2011		
	Cost	Fair value	Carrying value
Debt instruments:			
Government bonds – TL	1.047	1.059	1.059
	1.047	1.059	1.059
<u>Other non-fixed income financial assets:</u>			
Private sector bills (*)	23.446.954	25.054.880	25.054.880
Investment funds	8.007	8.035	8.035
	23.454.961	25.062.915	25.062.915

Total financial assets held for trading purpose	23.456.008	25.063.974	25.063.974
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(*) Private sector bills is composed of T. Garanti Bankası A.Ş. private sector bills.

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

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11 Financial assets (continued)

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

	31 December 2012		Carrying value
	Cost	Fair value	
Debt instruments:			
Private sector bills (*)	7.861.700	8.009.780	8.009.780
Government Bond - TL	5.638.920	5.815.768	5.815.768
Equity shares and other non-fixed income financial assets:			
Equity shares (**)	263.221	263.221	263.221
Total financial assets available for sale	263.221	263.221	263.221

(*) Private sector bills is composed of T. Garanti Bankası A.Ş. private sector bills.

	31 December 2011		Carrying value
	Cost	Fair value	
Equity shares and other non-fixed income financial assets:			
Equity shares (**)	263.221	263.221	263.221
Total financial assets available for sale	263.221	263.221	263.221

(**) The financial assets available for sale whose fair values could not be reliably measured are presented at their cost value.

As at 31 December 2012 and 31 December 2011, the Company's financial investments with risks on saving life policyholders ("FIRSLP") are detailed as follows:

	31 December 2012		Carrying value
	Cost	Fair value	
Debt instruments:			
Eurobonds issued by The Republic of Turkey Government	20.219.980	24.223.699	24.223.699
Total available for sale financial assets	20.219.980	24.223.699	24.223.699
Total financial investments with risks on saving life policyholders	20.219.980	24.223.699	24.223.699

	31 December 2011		Carrying value
	Cost	Fair value	
Debt instruments:			
Eurobonds issued by The Republic of Turkey Government	28.192.842	30.937.445	30.937.445
Total available for sale financial assets	28.192.842	30.937.445	30.937.445
Total financial investments with risks on saving life policyholders	28.192.842	30.937.445	30.937.445

All debt instruments presented above are traded in active markets.

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11 Financial assets (continued)

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

Value increases in financial assets for the last 3 years:

<u>Year</u>	<u>Change in value increase/(decrease)</u>	<u>Total increase/ (decrease) in value</u>
2012	136.997	411.383
2011	(74.495)	274.386
2010	(53.499)	348.881

Value increases represent the differences between the financial assets' carrying value and the cost value at the end of the period.

Financial assets issued by related parties of the Company:

As at 31 December 2012, the Company has TL 4.055.577 of investment funds, classified as financial assets held for trading purpose and TL 21.950.940 TL of private sector bills (31 December 2011: TL 8.035 of investment funds and TL 25.054.880 of private sector bills)

Financial assets blocked in favor of the Undersecretariat of Treasury as a guarantee for the insurance activities are as follows:

	31 December 2012		
	Cost	Fair value	Carrying value
Financial investments with risks on saving life policyholders – Eurobonds	20.219.980	24.223.699	24.223.699
Total	20.219.980	24.223.699	24.223.699

	31 December 2011		
	Cost	Fair value	Carrying value
Financial investments with risks on saving life policyholders – Eurobonds	28.192.842	30.937.445	30.937.445
Total	28.192.842	30.937.445	30.937.445

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12 Loan and receivables

	31 December 2012	31 December 2011
Receivables from main operations (Note 4.2)	3.410.867.880	2.414.708.552
Due from related parties (Note 4.2), (Note 45)	5.182.582	3.712.017
Other receivables (Note 4.2)	45.403	42.867
Non-current receivables	4.169	4.169
Total	3.416.100.034	2.418.467.605
Short-term receivables	3.416.095.865	2.418.463.436
Mid-term and long-term receivables	4.169	4.169
Total	3.416.100.034	2.418.467.605

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

	31 December 2012	31 December 2011
Receivables from policyholders	70.435.832	58.898.002
Receivables from reinsurance companies (Note 10)	1.082.634	706.018
Provisions for doubtful receivables from policyholders (Note 4.2)	(86.479)	(21.541)
Total receivables from insurance operations, net	71.431.987	59.582.479
Loans to the policyholders (Note 4.2)	584.299	246.684
Receivables from private pension operations (Note 18)	3.339.068.955	2.355.096.750
Provision for receivables from private pension operations (Note 4.2), (Note 18)	(217.361)	(217.361)
Receivables from main operations	3.410.867.880	2.414.708.552

Provision for both overdue receivables and receivables not due yet

- a) Receivables under legal or administrative follow up (due): None (31 December 2011: None).
b) Provision for premium receivables (due): TL 86.479 (31 December 2011: TL 21.541).
c) Provision for impairment of receivables from entrance fees: TL 217.361 (31 December 2011: TL 217.361)

The related party transactions of the Company are presented in Note 45 in detail.

The receivables and payables denominated in foreign currencies and detailed analyses of foreign currency balances are presented in Note 4.2.

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13 Derivative financial instruments

The Company does not have any derivative financial instruments as of 31 December 2012 and 31 December 2011.

14 Cash and cash equivalents

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

	31 December 2012		31 December 2011	
	At the end of the period	At the beginning of the period	At the end of the period	At the beginning of the period
Cash on hand	48	48	48	168
Bank deposits	620.450.633	493.220.364	493.220.364	344.213.967
Receivables from credit card collections (less than 3 months) (*)	51.686.327	6.967.045	6.967.045	7.192.836
Other cash and cash equivalents (**)	-	-	-	3.209.380
Cash and cash equivalents in the balance sheet	672.137.008	500.187.457	500.187.457	354.616.351
Interest accruals on bank deposits	(6.027.247)	(3.043.902)	(3.043.902)	(1.692.190)
Total	666.109.761	497.143.555	497.143.555	352.924.161

Blocked amount (110.734.995) (94.090.996) (94.090.996) (64.794.507)

(*) Contribution amount received by credit cards from pension fund participants which is under provision amounting to TL 44.444.119 is recorded to the financial statements as of 31 December 2012 for the first time (31 December 2011: TL 38.391.454).

(**) Other cash and cash equivalents consist of derivative exchange collaterals.

As at 31 December 2012 and 31 December 2011, the details of bank deposits are as follows:

	31 December 2012	31 December 2011
Foreign currency denominated bank deposits		
- time deposits	15.949.979	13.607.565
- demand deposits	6.674	4.645
Bank deposits in Turkish Lira		
- time deposits	601.588.202	475.863.458
- demand deposits	2.905.778	3.744.696
Cash at banks	620.450.633	493.220.364

As at 31 December 2012, cash collateral kept at banks in favour of the Undersecretariat of Treasury against insurance operations amounted to TL 110.734.995 (31 December 2011: TL 94.090.996).

Company's time deposits in T. Garanti Bankası A.Ş. is stated in note 45.

As at 31 December 2012 and 2011, the interest rate interval as follows:

	31 December 2012	31 December 2011
	Interest rate(%)	Interest rate(%)
TL	5-11	8-13
Foreign Currency	0,25-3	4

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15 Equity

Paid in capital

As at 31 December 2012 and 2011, the authorized nominal share capital of the Company is TL 50.000.000 and the share capital of the Company consists of 5.000.000.000 issued shares with TL 0.01 nominal value each.

There are not any treasury shares held by the Company itself or by its subsidiaries or associates.

There are not any equity shares issued which will be subject to sale in accordance with forward transactions and contracts.

The shareholder having direct or indirect control over the shares of the Company is Garanti Bankası Group, having 84,91% of the outstanding shares. Another party which have significant influence over the operations of the Company is Netherland based company Achmea BV having 15,00% of outstanding shares.

Legal reserves

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%, 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% 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.

	1 January - 31 December 2012	1 January - 31 December 2011
Legal reserves at the beginning of the period	10.000.000	8.777.544
Distribution of profit for the year	-	1.222.456
Legal reserves at the end of the period	10.000.000	10.000.000

Extraordinary Reserves

	1 January - 31 December 2012	1 January - 31 December 2011
Extraordinary reserves at the beginning of the period	266.164.169	167.345.946
Distribution of profit for the year	112.606.527	98.818.223
Extraordinary reserves at the end of the period	378.770.696	266.164.169

15 Equity (continued)

Revaluation of financial assets

The period income and expenses accrued directly under equity as of balance sheet date is presented below:

	31 December 2012	31 December 2011
Interest income from financial assets	514.230	342.983
Deferred tax effect	(102.847)	(68.597)
Fair value reserves at the end of the period	411.383	274.386

16 Other reserves and equity component of DPF

As at 31 December 2012, there is not any other reserves presented under equity except for the fair value reserves of available-for-sale financial assets which is presented as “revaluation of financial assets” in the accompanying financial statements. Movement of fair value reserves of available-for-sale financial assets and their related tax effects are presented in Note 15.

The Company recognizes its liability to the policyholders due to the saving life products, classified as investment contracts, under life mathematical provisions. The Company recognizes its own portion for the unrealized gains and losses, recognized due to change in the fair values of available for sale financial assets backing long term investment contracts under equity within ‘revaluation of financial assets’.

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17 Insurance contract liabilities and reinsurance assets

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

	31 December 2012	31 December 2011
Unearned premiums reserve, gross	113.368.140	105.990.107
Unearned premiums reserve, ceded (Note 10)	(19.841.398)	(48.389.681)
Unearned premiums reserve, net	93.526.742	57.600.426
Outstanding claims reserve, gross	56.359.131	25.178.700
Outstanding claims reserve, ceded (Note 10)	(14.157.149)	(8.408.950)
Outstanding claims reserve, net	42.201.982	16.769.750
Provision for bonus and discounts to the policyholders, net	-	80.563
Life mathematical reserve (short term and long term)	85.280.056	81.501.792
Equalization reserve, net	5.317.531	3.534.043
Total insurance technical reserves, net	226.326.311	159.486.574
Short-term	163.209.776	86.152.169
Medium and long-term	63.116.535	73.334.405
Total insurance technical provisions, net	226.326.311	159.486.574

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

	1 January - 31 December 2012		
	Gross	Reinsurer share	Net
Unearned premiums reserve			
Unearned premiums reserve at the beginning of the period	105.990.107	(48.389.681)	57.600.426
Premiums written during the period	262.855.070	(29.797.678)	233.057.392
Premiums earned during the period	(255.477.037)	58.345.961	(197.131.076)
Unearned premiums reserve at the end of the period	113.368.140	(19.841.398)	93.526.742

	1 January - 31 December 2011		
	Gross	Reinsurer share	Net
Unearned premiums reserve			
Unearned premiums reserve at the beginning of the period	98.680.661	(46.023.149)	52.657.512
Premiums written during the period	240.489.697	(87.856.434)	152.633.263
Premiums earned during the period	(233.180.251)	85.489.902	(147.690.349)
Unearned premiums reserve at the end of the period	105.990.107	(48.389.681)	57.600.426

	1 January – 31 December 2012	1 January – 31 December 2011
Equalization reserve at the beginning of the period	3.534.043	2.491.206
Increases during the period	1.783.488	1.042.837
Equalization reserve at the end of the period	5.317.531	3.534.043

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17 Insurance contract liabilities and reinsurance assets (continued)

	1 January – 31 December 2012		
	Gross	Reinsurer share	Net
Outstanding claims reserve			
Outstanding claims reserve at the beginning of the period	25.178.700	(8.408.950)	16.769.750
Claims reported during the period and changes in the estimations of provisions for outstanding claims provided at the beginning of the period	86.643.673	(27.459.350)	59.184.323
Claims paid during the period	(55.463.242)	21.711.151	(33.752.091)
Outstanding claims reserve at the end of the period	56.359.131	(14.157.149)	42.201.982

	1 January – 31 December 2011		
	Gross	Reinsurer share	Net
Outstanding claims reserve			
Outstanding claims reserve at the beginning of the period	21.520.307	(8.970.526)	12.549.781
Claims reported during the period and changes in the estimations of provisions for outstanding claims provided at the beginning of the period	50.327.172	(14.972.232)	35.354.940
Claims paid during the period	(46.668.779)	15.533.808	(31.134.971)
Outstanding claims reserve at the end of the period	25.178.700	(8.408.950)	16.769.750

Claim development tables

The basic assumption used in the estimation of provisions for outstanding claims is the Company's past experience on claim developments. The Company's management uses the judgment to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. The sensitivity of certain assumptions like legislative change, uncertainty in the estimation process, etc, is not possible to quantify. Furthermore, because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claims reserve is not known with certainty at the balance sheet date. Consequently, the ultimate liabilities will vary as a result of subsequent developments. Differences resulting from reassessment of the ultimate liabilities are recognized in subsequent period financial statements.

Development of insurance liabilities enables to measure the performance of the Company in estimation of its ultimate claim losses. The numbers presented on the top of the below tables show the changes in estimations of the Company for the claims in subsequent years after accident years. The numbers presented on the below of the below tables give the reconciliation of total liabilities with outstanding claims reserve presented in the accompanying financial statements.

Accident year	31 December 2012						Total
	2007	2008	2009	2010	2011	2012	
Accident year	14.149.409	16.473.990	29.867.197	33.985.735	44.370.132	79.958.497	218.804.960
1 year later	14.908.660	17.804.120	31.642.019	33.288.475	41.964.897	-	139.608.171
2 years later	14.518.055	16.010.648	31.022.327	35.559.821	-	-	97.110.851
3 years later	14.405.006	16.548.849	33.494.803	-	-	-	64.448.658
4 years later	14.891.936	18.360.861	-	-	-	-	33.252.797
5 years later	18.471.409	-	-	-	-	-	18.471.409
Current estimate of cumulative claims	18.471.409	18.360.861	33.494.803	35.559.821	41.964.897	79.958.497	227.810.288
Cumulative payments up to date	(14.482.899)	(16.546.938)	(29.834.936)	(30.861.710)	(34.894.201)	(44.830.473)	(171.451.157)
Liability recognized in balance sheet	3.988.510	1.813.923	3.659.867	4.698.111	7.070.696	35.128.024	56.359.131
Total outstanding claims reserve, gross in the financial statements							56.359.131

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17 Insurance contract liabilities and reinsurance assets (continued)

Claim development tables (continued)

31 December 2012							
Accident year	2007	2008	2009	2010	2011	2012	Total
Accident year	10.538.513	11.816.177	19.750.410	17.205.786	32.899.049	47.665.463	139.875.398
1 year later	13.272.399	14.576.267	17.137.663	19.543.791	35.850.760	-	100.380.880
2 years later	13.421.414	14.805.872	16.387.884	21.943.357	-	-	66.558.527
3 years later	13.793.058	16.081.938	19.319.250	-	-	-	49.194.246
4 years later	14.255.576	17.561.127	-	-	-	-	31.816.703
5 years later	17.733.266	-	-	-	-	-	17.733.266
Current estimate of cumulative claims	17.733.266	17.561.127	19.319.250	21.943.357	35.850.760	47.665.463	160.073.223
Cumulative payments up to date	(13.878.175)	(15.777.920)	(16.109.381)	(17.601.547)	(29.726.603)	(24.777.615)	(117.871.241)
Liability recognized in balance sheet	3.855.091	1.783.207	3.209.869	4.341.810	6.124.157	22.887.848	42.201.982
Total outstanding claims reserve, net in the financial statements							42.201.982

31 December 2011							
Accident year	2006	2007	2008	2009	2010	2011	Total
Accident year	11.544.198	14.477.124	16.846.172	31.658.405	36.322.806	52.675.134	163.523.839
1 year later	11.424.830	14.908.660	17.804.120	31.642.019	33.288.475	-	109.068.104
2 years later	11.509.051	14.518.055	16.195.665	31.022.327	-	-	73.245.098
3 years later	11.530.147	14.405.006	16.932.830	-	-	-	42.867.983
4 years later	11.480.905	14.891.936	-	-	-	-	26.372.841
5 years later	11.716.935	-	-	-	-	-	11.716.935
Current estimate of cumulative claims	11.716.935	14.891.936	16.932.830	31.022.327	33.288.475	52.675.134	160.527.637
Cumulative payments up to date	(11.341.329)	(14.246.402)	(16.195.564)	(29.172.482)	(29.571.793)	(34.821.367)	(135.348.937)
Liability recognized in balance sheet	375.606	645.534	737.266	1.849.845	3.716.682	17.853.767	25.178.700
Total outstanding claims reserve, gross in the financial statements							25.178.700

31 December 2011							
Accident year	2006	2007	2008	2009	2010	2011	Total
Accident year	9.994.808	13.933.763	16.209.890	16.045.111	18.896.391	34.264.720	109.344.682
1 year later	9.906.691	14.285.669	17.014.440	17.137.663	19.543.791	-	77.888.254
2 years later	9.973.187	13.900.724	15.421.318	16.387.884	-	-	55.683.113
3 years later	9.990.982	13.793.058	16.073.061	-	-	-	39.857.101
4 years later	9.931.802	14.255.576	-	-	-	-	24.187.378
5 years later	10.158.886	-	-	-	-	-	10.158.886
Current estimate of cumulative claims	10.158.886	14.255.576	16.073.061	16.387.884	19.543.791	34.264.720	110.683.918
Cumulative payments up to date	(9.795.016)	(13.646.370)	(15.435.727)	(15.487.183)	(16.530.176)	(23.019.696)	(93.914.168)
Liability recognized in balance sheet	363.870	609.206	637.334	900.701	3.013.615	11.245.024	16.769.750
Total outstanding claims reserve, net in the financial statements							16.769.750

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17 Insurance liabilities and reinsurance assets (continued)

Total amount of guarantee that should be placed by the Company for life and non-life branches and guarantees placed for the life and non-life branches in respect of related assets

	31 December 2012		31 December 2011	
	Should be placed (**)	Placed (*)	Should be placed (**)	Placed (*)
Life:				
Bank deposits		110.430.795		93.813.869
Financial assets (*)		23.596.273		30.368.512
Total	103.865.292	134.027.0678	104.035.365	124.182.381
Non-life:				
Bank deposits	166.674	304.202	166.702	277.127
Total	104.031.966	134.331.270	104.202.067	124.459.508

(*) As at 31 December 2012 and 31 December 2011, government bonds and treasury bills are measured at daily official prices announced by the Central Bank of Turkey; if these prices are not available, they are measured with stock exchange values; investment fund participation certificates are measured using the daily prices in accordance with the 6th Article of “Circular Related to the Financial Structure of Insurance, Reinsurance, and Private Pension Companies”.

(**) According to 7th article of “Circular Related to the Financial Structure of Insurance, Reinsurance, and Private Pension Companies” which regulates necessary guarantee amount, minimum guarantee fund for capital adequacy calculation period will be established as a guarantee in two months following the calculation period. According to “Regulations Regarding to Capital Adequacy Measurement and Assessment of Insurance, Reinsurance, and Private Pension Companies”, companies must prepare their capital adequacy tables twice in a financial year at June and December periods and must sent capital adequacy tables to the Turkish Treasury Department within two months.

Company’s number of life insurance policies, additions, disposals during the year and the related mathematical reserves

	1 January - 31 December 2012		1 January - 31 December 2011	
	Number of policyholders	Life mathematical reserve	Number of policyholders	Life mathematical reserve
Beginning of the year	3.013.098	81.501.792	3.244.866	73.016.964
Additions during the year	3.364.968	22.578.782	3.534.388	17.425.076
Disposals during the year	(3.807.164)	(12.179.722)	(3.766.148)	(12.296.788)
Movements during the year(*)	-	(6.620.796)		3.356.540
Current	2.570.902	85.280.056	3.013.106	81.501.792

(*) Increase/Decrease of the reserves are related with currency rates during the year

Distribution of new life insurance policyholders in terms of numbers and gross and net premiums as individual or group during the period

	31 December 2012			31 December 2011		
	Number of contracts	Gross premium	Net premium	Number of contracts	Gross premium	Net premium
Individual	5.828	2.681.952	2.681.952	51.296	2.738.550	2.738.550
Group	3.359.140	260.171.894	260.171.894	3.483.092	237.745.986	237.745.986
Total	3.364.968	262.853.846	262.853.846	3.534.388	240.484.536	240.484.536

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17 Insurance liabilities and reinsurance assets (continued)

Distribution of number of contracts, gross and net premiums and mathematical reserves for life insurance policyholders who left the Company's portfolio as individual or group during the period

	31 December 2012				31 December 2011			
	Number of contracts	Gross premium	Net premium	Mathematical reserve	Number of contracts	Gross premium	Net premium	Mathematical reserve
Individual	6.838	724.173	724.173	(6.034.394)	105.075	424.702	424.702	(5.141.592)
Group	3.800.326	75.308.414	75.308.414	(6.145.328)	3.661.073	80.287.169	80.287.169	(7.155.196)
Total	3.807.164	76.032.587	76.032.587	(12.179.722)	3.766.148	80.711.871	80.711.871	(12.296.788)

Deferred commission expenses

The Company defers commissions paid to the intermediaries for the production of the policies and other expenses for the one year term life products and for annually renewed long term life products under prepaid expenses. As at 31 December 2012, deferred commission and other expenses amount to TL 21.302.988 TL and TL 14.486.292 (31 December 2011: TL 12.723.604 and TL 20.685.458)

The movement of deferred commission expenses as of 31 December 2012 and 31 December 2011 is as follows.

	1 January- 31 December 2012	1 January - 31 December 2011
Deferred commission expenses at the beginning of the period	12.723.064	11.402.064
Commissions accrued during the period	48.402.042	46.479.300
Paid commissions during the period	(39.822.118)	(45.157.760)
Deferred commission expenses at the end of the period	21.302.988	12.723.604

18 Investment contract liabilities

The movements of life mathematical reserve for saving life policies as at 31 December 2012 and 31 December 2011 are as follows:

	1 January- 31 December 2012	1 January - 31 December 2011
Life mathematical provision for saving life policies		
Investment contract liabilities at the beginning of the period (Life-mathematical reserve)	41.995.869	37.907.275
Effect of foreign exchange differences	(2.089.263)	7.019.513
Written premiums during the period (saving life policies)	1.272.719	1.620.924
Disposals during the period (leaving policyholders)	(6.876.713)	(6.226.435)
Profit shares	2.436.553	2.767.750
Policyholders' portion of unrealized gains and losses due to changes in the fair values of investments with risks on policy holders, classified as available for sale financial assets (%95) (Note 30)	940.126	(1.093.158)
Investment contract liabilities at the end of the period	37.679.291	41.995.869

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18 Investment contract liabilities (continued)

Profit share distribution rates to life policyholders during the period 31 December 2012 and 31 December 2011:

	<u>31 December 2012</u>	<u>31 December 2011</u>
USD:	7,22%	7,13%
EUR:	6,28%	6,26%

Pension operations

The details of receivables and liabilities from pension operations as at 31 December 2012 and 31 December 2011 are presented below:

	<u>31 December 2012</u>	<u>31 December 2011</u>
Receivables from clearing house on behalf of the participants	3.325.297.020	2.345.409.580
Receivables from participants (entrance fee)	13.771.935	9.687.170
Receivables from pension operations (Note 12)	3.339.068.955	2.355.096.750
Provision for the impairment of receivables from participants (Note 4.2), (Note 12)	(217.361)	(217.361)
Receivables from pension operations. Net	3.338.851.594	2.354.879.389
	<u>31 December 2012</u>	<u>31 December 2011</u>
Payables to participants	3.324.797.020	2.345.409.580
Participants temporary account	48.633.995	2.399.133
Payables to clearing house	226.134	1.229
Payables to Emeklilik Gözetim Merkezi	35.000	-
Other liabilities	1.527.774	796.761
Payables due to pension operations (Note 19)	3.375.219.923	2.348.606.703

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18 Investment contract liabilities (continued)**Pension operations (continued)**

As at 31 December 2012 and 31 December 2011 pension investment funds founded by the Company and their unit prices are as follows:

	31 December 2012	31 December 2011
	Unit prices	Unit prices
Likit Kamu Emeklilik Yatırım Fonu	0,030994	0,028946
Gelir Amaçlı Kamu Borçlanma Araçları Emeklilik Yatırım Fonu	0,042639	0,037744
Gelir Amaçlı Kamu Dış Borçlanma Araçları (Eurobond) Emeklilik Yatırım Fonu	0,030072	0,026661
Büyüme Amaçlı Hisse Senedi Emeklilik Yatırım Fonu	0,061600	0,039741
Esnek Emeklilik Yatırım Fonu	0,038328	0,030493
Gelir Amaçlı Uluslararası Borçlanma Araçları Emeklilik Yatırım Fonu	0,019255	0,019896
Kamu Borçlanma Araçları Emeklilik Yatırım Fonu	0,022304	0,019490
Gelir Amaçlı Kamu Borçlanma Araçları (Döviz) Emeklilik Yatırım Fonu	0,018342	0,016412
Gruplara Yönelik Esnek Emeklilik Yatırım Fonu	0,028641	0,022632
Gruplara Yönelik Gelir Amaçlı Karma Borçlanma Araçları Emeklilik Yatırım Fonu	0,020104	0,017780
Gruplara Yönelik Gelir Amaçlı Kamu Borçlanma Araçları Emeklilik Yatırım Fonu	0,025456	0,022250
Esnek Alternatif Emeklilik Yatırım Fonu	0,013395	0,012195
Gelir Amaçlı Devlet İç Borçlanma Araçları Emeklilik Yatırım Fonu	0,011427	0,010178
Hisse Senedi Emeklilik Yatırım Fonu	0,011701	0,007541
Esnek (TL) Emeklilik Yatırım Fonu	0,011369	0,009118
Gruplara Yönelik Hisse Senedi Emeklilik Yatırım Fonu	0,012741	0,007973

Number and amount of participation certificate in the portfolio and in circulation is such as follows as of 31 December 2012 and 31 December 2011:

	31 December 2012			
	Participation certificate in the circulation		Participation certificate in the portfolio	
	Number	Amount	Number	Amount
Likit Kamu Emeklilik Yatırım Fonu	9.423.399.348	292.064.926	15.576.600.652	482.781.161
Gelir Amaçlı Kamu Borçlanma Araçları Emeklilik Yatırım Fonu	35.205.821.698	1.501.139.108	164.794.178.302	7.026.658.969
Gelir Amaçlı Kamu Dış Borçlanma Araçları (Eurobond) Emeklilik Yatırım Fonu	1.630.328.842	49.026.795	8.369.671.158	251.692.751
Büyüme Amaçlı Hisse Senedi Emeklilik Yatırım Fonu	2.074.395.758	127.783.624	7.925.604.242	488.217.221
Esnek Emeklilik Yatırım Fonu	10.527.351.785	403.491.325	14.472.648.215	554.707.661
Gelir Amaçlı Uluslararası Borçlanma Araçları Emeklilik Yatırım Fonu	1.156.259.432	22.263.328	8.843.740.568	170.286.225
Kamu Borçlanma Araçları Emeklilik Yatırım Fonu	1.187.775.434	26.492.263	8.812.224.566	196.547.857
Gelir Amaçlı Kamu Borçlanma Araçları (Döviz) Emeklilik Yatırım Fonu	1.162.384.739	21.320.511	8.837.615.261	162.099.539
Gruplara Yönelik Esnek Emeklilik Yatırım Fonu	3.453.886.640	98.923.728	6.546.113.360	187.487.233
Gruplara Yönelik Gelir Amaçlı Karma Borçlanma Araçları Emeklilik Yatırım Fonu	629.617.897	12.657.731	9.370.382.103	188.382.162
Gruplara Yönelik Gelir Amaçlı Kamu Borçlanma Araçları Emeklilik Yatırım Fonu	16.165.274.826	411.508.883	83.834.725.174	2.134.096.764
Esnek Alternatif Emeklilik Yatırım Fonu	3.047.301.231	40.819.388	6.952.698.769	93.131.400
Gelir Amaçlı Devlet İç Borçlanma Araçları Emeklilik Yatırım Fonu	10.025.512.833	114.565.435	14.974.487.167	171.113.465
Hisse Senedi Emeklilik Yatırım Fonu	3.750.899.003	43.889.253	6.249.100.997	73.120.731
Esnek (TL) Emeklilik Yatırım Fonu	12.685.636.425	144.217.725	12.314.363.575	140.001.999
Gruplara Yönelik Hisse Senedi Emeklilik Yatırım Fonu	1.148.457.341	14.632.997	8.851.542.659	112.777.505
Total	113.274.303.232	3.324.797.020	386.725.696.766	12433102.642

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18 Investment contract liabilities (continued)**Pension operations (continued)**

	31 December 2011			
	Participation certificate in the circulation		Participation certificate in the portfolio	
	Number	Amount	Number	Amount
Likit Kamu Emeklilik Yatırım Fonu	9.221.612.189	266.931.964	15.778.387.811	456.726.650
Gelir Amaçlı Kamu Borçlanma Araçları Emeklilik Yatırım Fonu	31.297.531.911	1.181.292.084	8.702.468.089	328.465.410
Gelir Amaçlı Kamu Dış Borçlanma Araçları (Eurobond) Emeklilik	1.546.306.737	41.226.692	8.453.693.263	225.387.238
Büyüme Amaçlı Hisse Senedi Emeklilik Yatırım Fonu	2.478.009.408	98.477.363	7.521.990.592	298.927.760
Esnek Emeklilik Yatırım Fonu	10.002.889.902	305.021.055	14.997.110.098	457.311.276
Gelir Amaçlı Uluslararası Borçlanma Araçları Emeklilik Yatırım Fonu	1.458.127.034	29.010.839	8.541.872.966	169.948.777
Kamu Borçlanma Araçları Emeklilik Yatırım Fonu	1.285.643.767	25.056.915	8.714.356.233	169.840.891
Gelir Amaçlı Kamu Borçlanma Araçları (Döviz) Emeklilik Yatırım Fonu	1.060.130.684	17.398.547	8.939.869.316	146.718.458
Gruplara Yönelik Esnek Emeklilik Yatırım Fonu	2.765.610.482	62.591.101	7.234.389.518	163.728.193
Gruplara Yönelik Gelir Amaçlı Karma Borçlanma Araçları Emeklilik Yatırım Fonu	465.571.656	8.277.742	9.534.428.344	169.519.646
Gruplara Yönelik Gelir Amaçlı Kamu Borçlanma Araçları Emeklilik	6.911.920.617	153.788.815	3.088.079.383	68.709.132
Esnek Alternatif Emeklilik Yatırım Fonu	1.873.327.690	22.844.560	8.126.672.310	99.101.858
Gelir Amaçlı Devlet İç Borçlanma Araçları Emeklilik Yatırım Fonu	5.188.151.818	52.803.940	19.811.848.182	201.640.908
Hisse Senedi Emeklilik Yatırım Fonu	3.818.603.889	28.796.502	6.181.396.111	46.614.571
Esnek (TL) Emeklilik Yatırım Fonu	5.585.139.039	50.926.095	19.414.860.961	177.027.473
Gruplara Yönelik Hisse Senedi Emeklilik Yatırım Fonu	121.083.719	965.366	9.878.916.281	78.761.756
Total		2.345.409.580		3.258.429.997

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

	1 January – 28 December 2012			
	Additions during the period	Left/cancellations during the period	Outstanding	Total amount
Individual	133.925	56.716	476.579	1.957.456.639
Group	37.396	30.319	175.659	710.184.781
Total	171.321	87.035	652.238	2.667.641.420

	1 January – 31 December 2011			
	Additions during the period	Left/cancellations during the period	Outstanding	Total amount
Individual	113.073	41.929	399.370	1.535.260.906
Group	35.184	26.537	168.582	523.103.864
Total	148.257	68.466	567.952	2.058.364.770

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

	28 December 2012			31 December 2011		
	Number of contracts	Gross contributions	Net contributions	Number of contracts	Gross contributions	Net contributions
Individual	133.925	175.581.399	171.361.723	113.073	159.136.277	155.397.430
Group	37.396	33.190.008	32.808.220	35.184	45.070.330	44.698.475
Total	171.321	208.771.407	204.169.943	148.257	204.206.607	200.095.905

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18 Investment contract liabilities (continued)

Pension operations (continued)

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

	31 December 2012			31 December 2011		
	Number of contracts	Gross contributions	Net contributions	Number of contracts	Gross contributions	Net contributions
Individual	1.115	27.595.621	27.562.615	1.956	45.973.377	45.903.233
Group	423	5.567.314	5.561.745	1.625	11.564.641	11.548.923
Total	1.538	33.162.935	33.124.360	3.581	57.538.018	57.452.156

Distribution of individual and group participants and their gross and net contributions which were transferred from life insurance portfolio during the period

None.

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

	31 December 2012			31 December 2011		
	Number of contracts	Gross contributions	Net contributions	Number of contracts	Gross contributions	Net contributions
Individual	56.716	286.946.690	285.347.277	41.929	185.569.392	184.419.882
Group	30.319	113.037.181	112.752.570	26.537	74.848.578	74.569.998
Total	87.035	399.983.871	398.099.847	68.466	260.417.970	258.989.880

19 Trade and other payables and deferred income

	31 December 2012	31 December 2011
Payables due to main operations	3.398.421.509	2.373.430.489
Deferred commission income	3.611.023	24.044.819
Expense accruals	1.774.773	1.527.775
Taxes and other liabilities and provisions	12.226.305	14.846.850
Due to related parties	5.888.687	5.270.211
Financial liabilities (Note 20), (Note 45)	812.407	-
Other various payables (Note 47) (*)	1.104.554	900.152
Total	3.423.839.258	2.420.020.296
Short term liabilities	3.423.839.258	2.420.020.296
Mid term and long term liabilities	-	-
Total	3.423.839.258	2.420.020.296

(*) : Other payables are comprised of payables to third party service providers as at 31 December 2012.

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19 Trade and other payables and deferred income (continued)

Payables from main operations of the Company as at 31 December 2012 and 31 December 2011 are detailed below:

	31 December 2012	31 December 2011
Payables to reinsurers (Note 10)	7.115.539	10.353.936
Payables to agencies	15.806.626	14.384.413
Payables to policyholders	279.421	85.437
Total payables due to insurance operations	23.201.586	24.823.786
Payables due to pension operations (Note 18)	3.375.219.923	2.348.606.703
Payables from main operations	3.398.421.509	2.373.430.489

Corporate tax provision and prepaid taxes are disclosed below:

	31 December 2012	31 December 2011
Corporate tax provision	33.492.771	29.137.586
Prepaid taxes during the period	(24.726.925)	(20.940.799)
Corporate tax payable, net	8.765.846	8.196.787

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

None.

20 Financial liabilities

As at 31 December 2012, the Company has TL 812.407 of financial liability (31 December 2011:None).

21 Deferred taxes

As at 31 December 2012 and 31 December 2011, the detailed analysis of the items resulting deferred tax assets and liabilities are as follows:

	31 December 2012	31 December 2011
	Deferred Tax Assets /(Liabilities)	Deferred Tax Assets /(Liabilities)
Differences in depreciation methods on tangible and intangible assets between tax regulations and the Reporting Standards	(976.166)	(905.873)
Equalization provision	1.063.506	706.809
Provision for employment termination benefits and unused vacation pay liability	390.411	368.238
Provision for personnel bonus	259.000	190.924
Discount on receivables and payables	(172.318)	(129.399)
Provisions for lawsuits	85.484	50.124
Provision for impairment in receivables from insurance operations	17.296	4.308
Provision for impairment in receivables from participants	43.472	43.472
Other expense accruals	5.027	-
Provision for bonus and discounts to policyholders	-	16.113
Other insurance technical provisions	396.289	228.730
Deferred tax asset/(liability), net	1.112.001	573.446

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21 Deferred taxes (continued)

Movement of the deferred tax assets / (liabilities) during the periods ending 31 December 2012 and 31 December 2011 is presented below:

	1 January- 31 December 2012	1 January- 31 December 2011
Beginning balance, January 1	573.446	181.774
Recognized in the income statement	572.804	373.048
Recognized in the equity	(34.249)	18.624
Closing balance as of end of the period	1.112.001	573.446

22 Retirement benefit obligations

None.

23 Provisions for other liabilities and charges

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

	31 December 2012	31 December 2011
Provision for unused vacation pay liability	1.810.745	1.690.570
Provisions for lawsuits	427.422	250.618
Provisions for costs	2.238.167	1.941.188
Provision for employment termination benefits	141.309	150.621
Total provisions for other risks	2.379.476	2.091.809

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

	1 January- 31 December 2012	1 January- 31 December 2011
Provision for employment termination benefits at the beginning of the period	150.621	177.503
Interest cost	2.214	8.272
Service cost	848.309	520.460
Payments during the period	(870.456)	(556.094)
Actuarial loss	10.621	480
Provision for employment termination benefits at the end of the period	141.309	150.621

24 Net insurance premium revenue

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

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25 Fee revenues

Fee revenues consist of fees received from pension investment funds, pension participants and expenses charged to the life policyholders.

	1 January – 31 December 2012	1 January – 31 December 2011
Fund management fee	53.523.594	40.097.813
Management fee deduction	24.297.142	20.893.405
Entrance fee	31.841.631	24.597.889
Increase in market value of capital commitment advances	-	77
Other technical income	4.481	-
Total pension technical income	109.666.848	85.589.184

The details of fees from pension investment funds and pension participants are presented in the accompanying statement of income. As at and for the year ended 31 December 2012, fees charged to saving life policyholders amounts to TL 74.332 (31 December 2011: TL 94.200)

26 Investment income

Presented in Note 4.2 – Financial risk management.

27 Net realized gains on financial assets

Presented in Note 4.2 – Financial risk management.

28 Net fair value gains on assets at fair value through profit or loss

Presented in Note 4.2 – Financial risk management.

29 Insurance rights and claims

The Company has no branch based subrogation income or expense for the period between 1 January – 31 December 2012 (1 January – 31 December 2011: None).

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30 Investment contract benefits

As at and for the year ended 31 December 2012 and 31 December 2011, the details of changes in life mathematical provisions recognized in the statement of income and equity from investment contracts are as follows:

	1 January– 31 December 2012	1 January– 31 December 2011
Change in life mathematical provisions for investment contracts recognized in the statement of income	(5.256.704)	5.181.752
Changes in shares of policy holders in unrealized gain or loss from available for sale financial asset in which the liabilities arising from investment contract benefits are invested (Note 18)	940.126	(1.093.158)
Change in life mathematical provisions for investment contracts	(4.316.578)	4.088.594

31 Other mandatory expenses

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

32 Expenses by nature

For the year ended 31 December 2012 and 31 December 2011, the details of operating expenses are as follows:

	1 January - 31 December 2012	1 January – 31 December 2011
Commission expenses	(65.676.835)	(59.273.417)
<i>Commissions to intermediaries accrued during period</i>	<i>(68.057.054)</i>	<i>(61.691.177)</i>
<i>Change in deferred commission expenses</i>	<i>422.511</i>	<i>1.321.540</i>
<i>Deferred commission expenses</i>	<i>1.957.708</i>	<i>1.096.220</i>
Employee benefit expenses (Note 33)	(51.429.300)	(42.500.174)
Commission income from reinsurers	31.056.951	59.100.148
<i>Commission income from reinsurers accrued during period</i>	<i>10.623.155</i>	<i>60.254.280</i>
<i>Change in deferred commission income</i>	<i>20.433.796</i>	<i>(1.154.132)</i>
Advertisement and public related expenses	(5.443.613)	(6.093.496)
Office expenses	(10.032.743)	(9.972.127)
Information technology expenses	(5.084.594)	(4.118.424)
Taxes and duties expenses	(2.836.413)	(1.917.860)
Other expenses	(9.206.758)	(7.253.421)
Total	(118.653.305)	(72.028.771)

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33 Employee benefit expenses

For the year ended 31 December 2012 and 31 December 2011, the details of employee benefit expense are as follows:

	1 January – 31 December 2012	1 January – 31 December 2011
Wages and salaries	(26.006.115)	(21.467.803)
Employer's share in social security premiums	(5.059.403)	(4.207.284)
Employment termination benefits and unused vacation expenses	(1.681.053)	(739.509)
Bonus, premium and commissions	(9.882.266)	(8.953.317)
Other benefits	(8.800.463)	(7.132.261)
Total (Note 32)	(51.429.300)	(42.500.174)

34 Financial costs

There are not any finance costs classified either on production costs or tangible assets.

35 Income tax expense

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

	1 January – 31 December 2012	1 January – 31 December 2011
Provision for corporate tax expense:	(33.492.771)	(29.137.586)
Provision for corporate tax expense:	(33.492.771)	(29.137.586)
Deferred taxes:	572.804	373.048
Total income tax expense presented in the statement of income	(32.919.967)	(28.764.538)

A reconciliation of tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the Company's effective income tax rate for the year ended 31 December 2012 and 31 December 2011 is as follows:

	1 January – 31 December 2012	1 January – 31 December 2011
Profit before taxes	161.966.393	141.371.065
Taxes on income per statutory tax rate: 20%	(32.393.279)	(28.274.213)
Non-deductible expenses	(478.558)	(524.921)
Others	(48.130)	34.596
Total income tax expense presented in the statement of income	(32.919.967)	(28.764.538)

36 Net foreign exchange gains / losses

Net foreign exchange gains/losses are presented in Note 4.2 – Financial Risk Management.

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37 Earnings per share

According to IAS 33 “Earnings per Share”, earnings per share of unquoted Companies do not disclose earnings per share. As for the Company is not listed, earnings per share is not calculated in the accompanying financial statements.

38 Dividends per share

Net profit of the Company for the year ended 31 December 2011 amount to TL 112.606.527. In the General Meeting held on 20 April 2012, it has been resolved to transfer the net profit for the year 2011 to reserves instead of distributing as dividend (31 December 2011: Net profit of the Company for the year ended 31 December 2010 amounted to TL100.040.679. In the General Meeting held on 25 April 2011, it has been resolved to transfer the net profit for the year 2010 to reserves instead of distributing as dividend).

39 Cash generated from operations

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

40 Convertible bond

None.

41 Redeemable preference shares

None.

42 Contingencies

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

As at 31 December 2012, the probable liability amount that will arise in the situation that all the cases that Company is defendant results against the Company is TL 2.732.335 (31 December 2011: TL 2.380.252) in gross. The Company has recorded provision of TL 4.111.176 (31 December 2011: TL 3.319.765) for such lawsuits including interests and other expenses in the outstanding claims reserve in the accompanying financial statements.

43 Commitments

The details of the guarantees that are given by the Company for the operations in life and non-life branches are presented in Note 17. The future aggregate minimum lease payments under operating leases for properties rented for use of head office and regional offices and motor vehicles rented are as follows:

	31 December 2011	31 December 2010
Less than 1 year	2.028.476	1.579.129
More than 1 year less than 5 years	5.450.675	881.774
More than 5 years	-	-
Total of minimum rent payments	7.479.152	2.460.903

44 Business mergers

None.

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45 Related party transactions

T. Garanti Bankası A.Ş. and Achmea which have 99.91% in total of outstanding shares of the Company and the groups having direct control over those companies and the affiliates and associates of those groups are defined as related party to the Company.

The related party balances as of 31 December 2012 and 31 December 2011 are as follows:

	31 December 2011	31 December 2010
Garanti Bankası T.A.Ş. – receivables from credit card collections	51.686.327	6.967.045
Other cash and cash equivalents (Note 14)	51.686.327	6.967.045
Garanti Bankası T.A.Ş. – bank deposits	461.647.237	350.270.034
Cash at banks	461.647.237	350.270.034
Garanti Bankası T.A.Ş. – private sector bonds	21.950.940	25.054.880
Financial assets held for trading (Note 11)	21.950.940	25.054.880
T. Garanti Bankası A.Ş.	128.023	24.312
Doğuş Holding A.Ş.	2.024	-
Garanti Portföy Yönetimi A.Ş.	11.216	3.661
Doğuş Otomotiv Servis A.Ş.	3.530	2.252
Eureko Sigorta A.Ş.	870	574
Garanti Faktoring A.Ş.	14.108	10.886
Doğuş Oto Pazarlama ve Tic. A.Ş.	105	-
Garanti Ödeme Sistemleri A.Ş.	197	-
Others	3.329	16.030
Receivables from main operations	163.402	57.615
T. Garanti Bankası A.Ş. – Local usage	33.679	-
Due from Shareholders(Note 12)	33.679	-
Garanti Hizmet Yönetimi A.Ş. – fund management	5.148.903	3.712.017
Other receivables from related parties (Note 12)	5.148.903	3.712.017
Garanti Bankası T.A.Ş. – tax loans	812.407	-
Other financial liabilities (Note 19), (Note 20)	812.407	-
Garanti Bankası T.A.Ş. – commission payables	15.967.962	14.240.569
Payable from main operations	15.967.962	14.240.569
Garanti Bankası T.A.Ş.– payables due to local usage	1.783	20.301
Eureko Sigorta A.Ş. – payables due to local usage and insurance policy premiums	48.381	27.206
Garanti Hizmeti Yönetimi A.Ş. – portfolio management	71.650	64.801
Payables to shareholders	121.814	112.308
Garanti Bankası T.A.Ş. – provision for outstanding claims	134.543	47.520
Doğuş Holding A.Ş.	59.795	190.080
Provision for outstanding claims	194.338	237.600
Garanti Portföy Yönetimi A.Ş. – management of private pension funds	5.504.860	5.078.177
Garanti Bilişim Teknolojisi ve Ticaret T.A.Ş. – software and service expenses	-	13.666
Garanti Filo Yönetim Hizmetleri A.Ş. – automobile rent expense	187.020	-
Antur Turizm A.Ş. – travel expenses	40.092	34.815
Others	-	744
Payables to other related parties	5.731.972	5.127.402

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45 Related party transactions (continued)

No guarantees have been taken for the receivables from related parties.

There are no doubtful receivables and payables from shareholders, subsidiaries and joint ventures. There are no liabilities like guarantee, commitment and loan on behalf of shareholders, subsidiaries and associates.

The transactions with related parties during the year ended 31 December 2012 and 31 December 2011 are as follows:

	1 January– 31 December 2012	1 January– 31 December 2011
Garanti Bankası T.A.Ş.	2.257.234	1.878.236
Doğuş Holding A.Ş.	55.197	54.282
Doğuş Oto Pazarlama ve Tic A.Ş.	104.162	93.516
Doğuş Otomotiv Servis A.Ş.	95.063	94.262
Eureko Sigorta A.Ş.	45.500	50.384
Garanti Yatırım Menkul Kıymetler A.Ş.	56.984	68.975
Others	308.567	271.255
Written premiums	2.922.707	2.510.910
T. Garanti Bankası A.Ş.– bank deposits	45.201.488	33.464.708
Investment income	45.201.488	33.464.708
T. Garanti Bankası A.Ş.	65	29.456
Garanti Portföy Yönetim A.Ş.	109.185	42.696
Investment expense	109.250	72.152
Garanti Bankası T.A.Ş.– commissions paid (*)	68.056.174	60.652.266
Garanti Bankası T.A.Ş.– rent, tax and other expenses	3.522.524	2.738.503
Garanti Bilişim Teknoloji ve Tic. T.A.Ş. – information technology expenses	11.567.475	9.535.937
Antur Turizm A.Ş. – tourism expenses	2.302.612	1.949.487
Garanti Yatırım Menkul Kıymetler A.Ş. – rent expenses	63.440	99.191
Garanti Filo Yönetim Hizmetleri A.Ş.– car rental expenses	1.132.034	1.081.872
Eureko Sigorta AŞ – health and automobile insurance premiums	1.343.429	947.527
Doğuş Yayın Grubu A.Ş. – advertisement expenses	299.559	217.865
Others	114.383	106.467
Operating expenses	88.401.630	77.329.115

(*) Amounts are demonstrated as gross amounts without deferred commission expenses.

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46 Subsequent events

None.

47 Others

Description and amounts of the items which are higher than 5% of the total assets in the balance sheet or higher than 20% of the total amount of the group including the items phrased with “other” in the accompanying financial statements

They are presented in the related notes above.

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

	31 December 2012	31 December 2011
Takasbank –customer care commission payables	143.423	535.292
Capital Market Board-Additional registration fee payables	105.637	101.524
Consulting services received	176.525	-
Telecommunication services received	18.827	63.917
Policy and contract consignment payables	96.058	56.596
Transportation and food payables	73.943	1.039
Personnel life insurance payables	45.197	2.150
Payables to market survey companies	53.241	-
Other payables	391.703	139.634
Total	1.104.554	900.152

Subrogation recorded in the off-balance sheet accounts

None.

Real rights on immovable and their values

None.

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

None.

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

	1 January – 31 December 2012	1 January – 31 December 2011
Provision for unused vacation pay liability (Note 23)	(120.175)	(300.003)
Provision (expense) / release for receivables from main operations (Note 4.2)	(64.938)	115.946
Provision for lawsuits (Note 23)	(176.804)	(5.178)
Provision for employment termination benefits (Note 23)	9.311	26.882
Provision for entrance fee receivables (Note 4.2)	-	(94.667)
Total provision expenses	(352.606)	(257.560)

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47 Others (continued)

	1 January– 31 December 2012	1 January– 31 December 2011
BSMV return (*)	3.186.296	-
Social Security Institution nursing fees	215.034	122.954
Received compensation from personnel	30.032	23.824
Other	60.413	28.147
Total other expenses	3.491.775	174.925

(*) Consist of the return of “Banking and insurance transaction tax” paid for the fund income prior to September 2010.

	1 January– 31 December 2012	1 January– 31 December 2011
Non deductible expenses related to life insurance policy holders (*)	2.071.673	2.183.017
Non deductible expenses related to pension fund receivable early severance (**)	127.468	147.962
Special communication taxes	115.838	95.290
Donations and grants	23.480	12.480
Other	54.332	12.882
Total other expenses	2.392.791	2.451.631

(*) The non deductible expenses related to the life branch policies are the return premium transactions of life insurance policies accrued in prior periods.

(**) The non deductible expenses related to the pension fund policies are the repayment transactions arising from operational errors occurred in the process of private pension system.