

**YAPI KREDİ SİGORTA A.Ş.**  
**ANNUALREPORT2005**



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## YAPI KREDİ SİGORTA A.Ş. AGENDA OF GENERAL ASSEMBLY OF SHAREHOLDERS

1. Opening and election of members of the Chairing Council
2. Authorization of the Chairing Council to sign the minutes of the meeting
3. Reading and discussion of the Annual Report of the Board of Directors, Auditors' Report and Independent External Audit Report for 2005
4. Declaration, discussion and approval of the 2005 Balance Sheet and Profit & Loss Statement
5. Discharge of the Board of Directors' and the Auditors' liabilities with regard to company's activities and transactions in 2005
6. Deduction of previous year's loss, which accrued from an inflation adjustment made in accordance with Law No. 5024, from inflationary differences of the Shareholders' Equity items
7. Determination of the number of members of the Board of Directors, the members, respective periods of service and remuneration
8. Election of auditors and determination of their respective periods of service and remuneration
9. Approval of Independent External Audit company chosen by the Board of Directors
10. Authorization of the Board of Directors in accordance with articles 334 and 335 of the Turkish Law of Commerce
11. Closing remarks

### **Dear Shareholders**

Our Company completed 2005, an economically and politically stable year, successfully with a 16% increase in premium income, which reached YTL470 million.

Yapı Kredi Sigorta A.Ş. has proved to be a reliable institution with a well-guided, productive and innovative operational philosophy grounded on principles of high quality, customer-focused service.

We present our Company's 2005 Balance Sheet and the Profit & Loss Statement for your consideration and approval.

Board of Directors

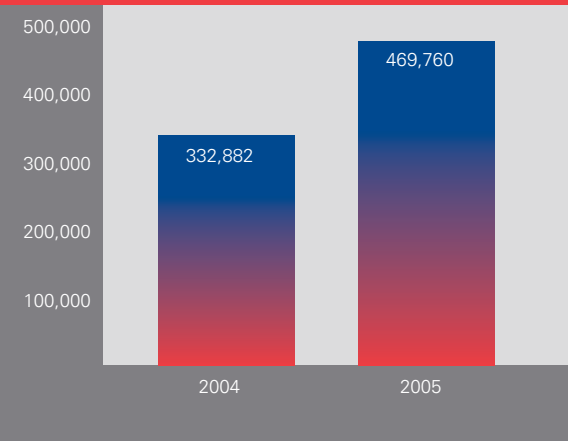
## FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS (YTL thousand)	2004	2005	CHANGE (%)
Total premium revenue	405,067	469,738	16
Total underwriting profit	21,696	44,183	104
Total assets	332,882	469,760	41
Paid-in capital	80,000	80,000	0
Shareholders' equity	103,202	188,833	83

## KEY RATIOS

KEY RATIOS	2004	2005	CHANGE(%)
Underwriting profit / Premium revenue	0.054	0.094	74
Shareholders' equity / Total assets	0.310	0.402	30

### Total assets (YTL thousand)



## BOARD OF DIRECTORS

### **Seyit Kemal KAYA**

Chairman of the Board

With a BA in management from the University of Kansas, United States, Seyit Kemal Kaya started his career with Yapı Kredi Bank in September 1985. In 1996, he was appointed Assistant General Manager and worked in this post for four years. In 2000, Mr. Kaya joined Koçbank's Board of Directors and, in 2003, he was appointed General Manager of Koçbank. Yapı ve Kredi Bank's ordinary general assembly on 28 September 2005 appointed Mr. Kaya as General Manager.

### **Federico GHIZZONI**

Vice President

After graduating with a degree in law from Parma University in Italy, Federico Ghizzoni worked in different branches of Credito Italiano for about 13 years. For more than 11 years from 1992, Mr. Ghizzoni worked as a senior executive in the Bank's international units, operating under the name UniCredito Italiano. Mr. Ghizzoni was elected a member of the Board of Directors of Koç Financial Services at the beginning of 2003 and he was appointed a member of the Board of Directors of Yapı ve Kredi Bank at an ordinary general assembly on 28 September 2005.

### **İbrahim Tamer HAŞİMOĞLU**

Member

Tamer Haşimoğlu completed his undergraduate degree at Istanbul Technical University's Department of Mechanical Engineering, and then received a graduate degree in international management from the Business and Economics Institute of Istanbul University. Mr. Haşimoğlu started his professional career as a management trainee in Koç Group's Planning Department in 1989. Since 2004, he has held the post of President for Strategic Planning.

### **Arcangelo Michele VASSALLO**

Member

Since Arcangelo Michele Vassallo started his career at Credito Italiano in 1984, he has worked in various departments of the Bank, including the Audit, Credit Risk Management, Accounting and Tax departments. Since 2003, Mr. Vassallo has been working as the Director of Financial Reporting at Koç Financial Services and as the Consolidation Reporting Director at UniCredito.

**Ahmet İLERİGELEN**

Member

Ahmet İlerigelen completed his undergraduate degree in economics at Istanbul University's School of Economics in 1982 and subsequently gained a graduate degree from the same school in 1985. He started working at Yapı ve Kredi Bank in 1983 and he currently serves as Assistant General Manager of the bank.

**Ahmet Murat GÜVENEL**

Member/General Manager

Ahmet Murat Güvenel holds a B.A. in management from Boğaziçi University and an MBA in accounting and finance from the same school. He started his professional career in 1978 as Planning Manager at Çukurova Group. In 1981, he was appointed Assistant General Manager of Halk Reasürans. Subsequently, he joined Genel Sigorta as Assistant General Manager and, in November 1987, he became Assistant General Manager of Yapı Kredi Sigorta. Mr. Güvenel has held the post of General Manager of Yapı Kredi Sigorta since April 2004.

**Mehmet Erkan ÖZDEMİR**

Auditor

Erkan Özdemir graduated from the Department of Economics of Middle East Technical University in 1989 and, between 1994 and 2001, he worked as a Bank Auditor for the Banking Regulation & Supervision Board. Mr. Özdemir took up post in Koç Group in 2001 and serves as the Group's Audit Coordinator.

**Ahmet ERTÜZ**

Auditor

Ahmet Ertüz completed his undergraduate degree at the Economics, Administration & Trade Sciences Academy, Galatasaray School of Management & Economics in 1973 and completed his MBA at the Institute of Management Economics-School of Management at Istanbul University. Since 1969, he has worked as a specialist and manager in several finance-related departments of Yapı ve Kredi Bank and continues to serve as the division manager responsible for the bank's affiliates.

## SENIOR MANAGEMENT

### **Ahmet Murat GÜVENEL**

Board Member/General Manager

Ahmet Murat Güvenel holds a B.A. in management from Boğaziçi University and an MBA in accounting and finance from the same school. He started his professional career in 1978 as Planning Manager at Çukurova Group. In 1981, he was appointed Assistant General Manager of Halk Reasürans.

Subsequently, he joined Genel Sigorta as Assistant General Manager and, in November 1987, he took over as the Assistant General Manager of Yapı Kredi Sigorta. Mr. Güvenel has held the post of General Manager of Yapı Kredi Sigorta since April 2004.

### **Tamer BAŞKAN**

Assistant General Manager

After graduating from the Department of Finance of Istanbul University in 1981, Tamer Başkan joined Yapı Kredi Sigorta's Claims Department in 1984. In 1997, Mr. Başkan was appointed Assistant General Manager of Yapı Kredi Yaşam before moving to the same position in Yapı Kredi Sigorta in 2001.

### **Banu DARCAN**

Assistant General Manager

After graduating from the Department of Industrial Engineering-School of Management of Istanbul Technical University in 1989, Banu Darcan started

her professional career at Yapı Kredi Yaşam in 1990. She joined Yapı Kredi Sigorta as Group Manager and, since June 2004, Ms Darcan has been serving as Assistant General Manager.

### **Tankut EREN**

Assistant General Manager

Tankut Eren graduated from the Department of Management at Boğaziçi University in 1994 and started his professional career at Ernst & Young in 1994, where he rose to Audit Manager. In 1999, Mr. Eren was appointed Finance Manager of FİBA Group's Endi Tüketim Malları A.Ş. He started working as Group Manager at Yapı Kredi Sigorta in 2001 and he has served as Assistant General Manager since June 2004.

### **Coşkun GÖLPINAR**

Assistant General Manager

A graduate of the Department of Architecture of Yıldız Technical University, Mr. Gölpınar started his professional career at Koçtaş as an architect in 1984 before moving to Akbank in 1986. He joined Yapı Kredi Sigorta's Risk Department in 1987 and, after serving in various departments, he was appointed Assistant General Manager in 1996.

### Dear Shareholders

Positive developments took place in 2005, which was an economically and politically stable year for our country. The budget outperformed the set objectives and the budget deficit decreased 68% compared to 2004. In addition, we strongly believe that the recently started European Union accession talks will positively influence overall economic development and all sectors.

The European Commission's Progress Report on Turkey, released on 9 November, stated that robust financial consolidation and a tight monetary policy forms the basis for Turkey's strong economic performance. It further noted that, despite the progress made in the banking sector and in tax regulations, the need remains for a long-range program for future implementation. The Commission stated that the Turkish economy is going through profound transformations and that it could be viewed as a "working free market economy" so long as the stability and the reforms continue. The report takes the view that, in the medium-term, Turkey will be able to develop the necessary skills required to combat the competitive pressures and market challenges within the EU provided it continues its stability policies and moves forward with structural reforms.

In 2005, Turkey's insurance sector generated premium income of YTL7.8 billion – an increase of 18% on the previous year. As a result, the sector surpassed the 2005 consumer price inflation index, which ended the year at 8.18%, to post real growth of 9.71%. Of this premium income of YTL7.8 billion, non-life branches generated YTL6.5 billion and life YTL1.2 billion. While the growth rate for the non-life insurance branch was 21.55%, the life insurance branch grew only 1.66%.

In the accident branch, the largest of the branches, the total premium collected in 2005 was YTL2.49 billion, making a growth rate of 22.70%. Although the accident branch did not show significant progress compared with other branches in 2005, it remained an important branch because of the amount of premium collected and its market share of 31.87%.

The total individual demand for insurance products and services increased in parallel with 2005's growth in GDP. The increasing amount of housing and vehicle loans, as well as the growth in the construction sector and international trade, contributed significantly to the growth of the insurance sector.

The finalization of the Insurance Sector Draft Law and its passage towards debate in the parliamentary

sub-commissions raises hopes that Turkey's insurance sector will soon become better regulated.

A decrease in interest rates and a resulting decline in interest revenue forced insurance companies to increase their underwriting profits. A rise in underwriting profits would normally be achieved by pricing based on risk assessment. However, the intense price competition in the sector constitutes a serious obstacle to matching premium rates to risks. This situation will probably weaken firms that incur underwriting losses and lead to companies leaving the sector or to mergers.

Yapı Kredi Sigorta completed 2005 with a total premium income of YTL470 million and a 7.2% market share. The company's underwriting profit was YTL44 million and net total assets YTL470 million.

In line with our mission of providing unconditional customer satisfaction and becoming the best company in the sector, we increased our agency network from 700 in 2004 to 745 by the end of 2005. Our contracted institutions total increased from 852 in 2004 to 976 by the end of 2005, and our hospital network grew from 272 institutions to 355 by the year's end.

The most important development of 2005 for Yapı Kredi Sigorta was Koç

Financial Services' acquisition of Yapı Kredi A.Ş. and its affiliates, including Yapı Kredi Sigorta, and the subsequent establishment of a new vision and goals. With this new dynamism, we believe our contribution to the Turkish economy will continue to grow within the framework of Koç Financial Services.

On behalf of the Board of Directors, I would like to express my gratitude and regards to our shareholders and to Yapı ve Kredi Bank and its affiliates for their sales and other operational support, to our customers, our agencies and our employees, who, through their expertise, create the Yapı Kredi Sigorta difference.



Seyit Kemal Kaya  
Chairman of the Board

### Dear Shareholders

Given the increased public awareness for insurance services that will likely result from the European Union adaptation period over the next five years, it is realistic to project that Turkey's insurance sector will become a major player in the global arena.

However, we should not disregard the fact that the current competition among Turkish insurance companies affects the sector negatively in many ways, such as by decreasing the financial power of companies. As Turkey's insurance companies possess the internal synergy required to develop effective strategies at the sector branch level, we believe that this will open up new horizons, especially in terms of strengthening asset bases in the periods to come.

The decline in financial revenue raises the importance of actuarial approaches to pricing, effective marketing policies and decreasing claims payment costs.

Real interest rates, which in the past acted as a buffer against possible losses in the sector, have been declining in parallel with inflation, and this makes it essential that precautions be taken and capital structures be strengthened.

The belief that the new Agricultural Insurance Law, which became effective

in 2005, and the mortgage system, which is expected to be enacted in 2006, will create a substantial increase in premium income has created a synergy in the sector. The total premium income from the agricultural insurance branch, which was YTL20 million in 2003 and YTL29 million in 2004, increased 67.4% to YTL48.5 million in 2005. A larger increase is expected in 2006 because of this new law.

The growth rate in premium income for non-life branches, which was 36.45% in 2004, was 21.55% in 2005. Despite the profitability of most branches, this slow down in non-life premium income growth combined with a significant underwriting loss in the accident insurance branch had a negative effect on the final result, causing the 2005 Balance Sheet to present a less favorable scene than that for 2004.

Yapı Kredi Sigorta initiated a new pricing policy in 2005 and the results of this will become apparent in 2006. This new pricing policy will play an important role in achieving a favorable loss ratio, especially in the accident insurance branch.

In 2005, attempts to increase market share by trading off underwriting profit affected the sector negatively. However, Yapı Kredi Sigorta continued in 2005 to operate in line with its goal of achieving consistent and balanced growth.

Our company achieved 8% real growth in premium income in 2005 and its underwriting profit grew 10% to YTL45.3 million. The company's 2005 premium income performance ensured Yapı Kredi Sigorta remained among the top five companies in the sector.

Through the application of its consistent growth policy, Yapı Kredi Sigorta achieved real growth in all branches in excess of inflation in 2005. The fastest growing branches were Engineering (23%), Health (19%) and Accident (18%). As regards portfolio shares, the Accident Branch and Health Branch have remained the dominant branches with their respective shares of 42% and 37% of total premium production.

In terms of business processes, Yapı Kredi Sigorta has restructured itself and focused on its goal of developing a more effective service platform. This restructuring initiative has resulted in increased productivity, efficiency and motivation as a result of closer cooperation between technical units and our sales channels.

We started our new insurance software project in mid-2005. This became necessary because of the evolving technology in the sector and, by its completion in 2007, it will produce effective solutions aimed at higher customer satisfaction and increased performance.

After the merger of Yapı ve Kredi Bank and its affiliates with Koç Financial Services group of companies, Yapı ve Kredi Bank become Turkey's fourth largest bank in asset terms and held a 10% market share. It became the market leader in financial leasing, asset management, investment banking, brokerage services and factoring. We believe that, starting in 2006, this growth will continue to contribute to the Turkish economy by providing dynamism for all Koç Financial Services companies.

Confident in its abilities, Yapı Kredi Sigorta fosters transformation and its competence-based human resources approach entails adaptation. Under the Koç Financial Services roof, our company will build on this strength and attain still higher goals.



Ahmet Murat GÜVENEL  
General Manager

On the heels of 2004's consecutive disasters, 2005 was a record year for insured losses. Hurricane Katrina caused great damage in New Orleans on 1 September, which, according to Risk Management Solutions' estimations, resulted in economic losses of USD125 billion. The Insurance Information Institute projects total housing insurance claims of USD16.4 million (from over one million claim notifications) in spite the fact that standard policies do not cover flood damage. Hurricane Katrina has set a new record with 1.75 million claim notifications in the elementary branch and claims are expected to exceed USD40 billion. To put Hurricane Katrina into perspective, Hurricane Andrew resulted in seven hundred thousand claim notifications and USD15.5 billion in claims in 1992.

Last year was the year of hurricanes. In addition to Hurricane Katrina, Hurricanes Rita, Wilma and Dennis also resulted in significant damage. These four hurricanes are estimated to have resulted in over USD55 billion in claims and more than three million claim notifications. Of the 10 most costly hurricanes in US history, seven occurred between August 2004 and October 2005.

In addition to the damage these hurricanes caused, the world witnessed serious terrorist attacks in 2005. Four bombs shook the United Kingdom's capital, London, in attacks on three subway trains and a public bus during the morning rush hour on 7 July. The

Insurance Information Institute estimates that of the total damage, which Swiss Re determined to be USD1.72 billion, USD261 million was insured.

Another terrorist attack happened in the tourist city of Sharm el Sheikh, Egypt, on 23 July, Egypt's Independence Day. In this incident, the worst terrorist attack in the country since 1981, 88 people died and more than 200 were wounded. These terrorist attacks on hotels and large market places were apparently aimed at Egypt's tourism sector, which had enjoyed an annual turnover of around USD6 billion.

These events have made terror the number one item on the insurance sector's agenda along with natural disasters.

While India was struggling with monsoon floods all year long, the flood caused by Hurricane Stan and landslides in Honduras, El Salvador and Nicaragua caused the deaths of thousands. Monsoon floods killed many people in China during the summer. After the 8 October earthquake in Pakistan and India, more than 87,000 people lost their lives and landslides killed thousands of others. Because the number of insured people is low in this region, the magnitude of these disasters was not reflected in insurance claims.

Thunder in Northern Europe during winter caused claims of over USD1.5 billion and flooding in Romania in July led to claims of USD1.9 billion.

The spread of bird flu is another major concern. After Asia, bird flu emerged in Europe and Turkey, raising the fear that, if it mutates to a human transmittable form, bird flu could cause infections and death on the scale of 1918's Spanish flu. Should it happen, such a disaster is estimated to cause USD133 billion in insurance costs excluding death compensation and it is thought that its total cost to the world economy would be over USD800 billion.

Due to slowing elementary insurance growth and increased claim amounts, the sector is having hard times maintaining profitability. Five of the world's top 11 natural disasters in terms of claims happened within the last four years. The number of natural and manmade disasters has risen for the last 20 years while insured losses from catastrophes are also increasing. After Hurricane Katrina, insurance sector rating companies began monitoring 20 insurance companies with a view to possible rating changes. Previous high profit performance helped firms cope with this challenging period of disasters. A Standard & Poor's report entitled 'Industry Report Card: European Insurance' maintained that, despite the huge losses, 2005 has been a favorable year for the insurance sector overall. The report states that the positive results – except for those in reinsurance – resulted from insurance profits and investment performance, and that this trend is expected to continue into 2006. In addition, efforts related to the EU's draft Solvency-II regulations, which aim to standardize (among other things)

insurance companies' risk management and financial reporting, was an important issue within the Union last year.

The acquisitions that took place in the European insurance sector in 2005 are of particular importance. The agreement between Aviva and RAC and acquisition of Britannic by Resolution Life show that capital power is increasing and, as a result, a favorable environment for acquisitions is created. Acquisitions planned by Munich Re in Eastern Europe, AXA in China, Italy and India, Lloyd's recent permission to enter the Chinese reinsurance market, as well as Swiss Re's acquisition of Gen Re are indicative of this trend.

In developing countries, in parallel with improving economic conditions, real growth in the insurance sector continued, albeit less than in 2004. According to a Swiss Re survey, growth is expected to continue in the coming term because of a strengthening of the economic basis, increases in assets, large scale infrastructure investments and mandatory insurance regulations.

Although elementary insurance is mostly about accident and property insurance in developing countries, liability insurance rates are expected to grow due to increasing globalization, regional economic co-operation and foreign direct investment. As the expectations for the European insurance sector for 2006 are positive, this creates a favorable environment for the Turkish insurance sector.

The Turkish insurance sector had a positive year in 2005. Turkey's credit ratings improved, there was confidence in all markets, and real growth in many sectors, including finance, and in overall GDP. This general climate positively affected the insurance sector, which posted real growth in 2005.

Insurance companies collected YTL7.8 billion in premiums during the year and the sector grew by about 15% on the previous year. Of the total premium produced, the greatest share belonged to the accident branch, which, coupled with the traffic branch, accounted for about half total premium production.

When considering the financial reports prepared in line with the new account regulations, which became effective in 2005, we see that it has been a bad year for the accident, health and agriculture branches, which suffered underwriting losses. Other branches produced underwriting profits.

A decrease in interest rates on housing loans brought dynamism to the real estate sector, which had remained stagnant for a long time. With the mortgage system, which is due to start in 2006, the construction and real estate sectors are expected to blossom and, in turn, generate a positive affect on the insurance sector.

New insurance sector regulations were introduced in 2005 by the Treasury Under-secretariat. The work on the Draft Law for Insurance Legislation was completed in 2005 and its passing into law will harmonize the sector with international insurance sector standards and processes, and provide the basis for auditing the service quality of the insurance sector. Parliament is expected to vote on the Draft Law in 2006.

The Insurance Accounting System, which increases the transparency of the insurance sector and makes it more harmonious with international standards, was introduced at beginning of 2005.

Work on the "General Rules for Occupational Liability Insurance", which will enable citizens to seek compensation for material and physical losses that arise from various occupational activities, started in 2005 and continues.

Parliament passed the Agricultural Insurance Law on 14 July 2005. This law establishes a system whereby farmers can gain compensation via government support for losses that arise from natural disasters such as drought, frost and flood. It was enacted following publication in the Official Gazette. An Agricultural Insurance Pool has been established to administer, regulate and monitor agricultural insurance policies.

The pool will be created from a levy on agricultural policy premium payments and the insurance companies will receive commission from this pool. To manage this pool, a new company, Tarsim A.Ş., was formed with the participation of insurance companies that are licensed to sell agriculture insurance. Although the state's role in these arrangements remains unclear in detail, it will determine the agriculture insurance products and premiums and will support the farmers by adding premiums to the pool.

In 2005, The Union of Turkish Insurance & Reinsurance Companies continued to make valuable contributions to the insurance sector. As part of its activities to support the sector's adaptation to the European Union, it published 'The Guide for EU Insurance Acquis Communautaire'. The 'Guide' includes topics such as a short history of the EU's insurance sector, EU Legislation and case law concerning the sector, and the pre-accession experience of the insurance sectors of the 10 countries (Slovakia, Slovenia, Czech Republic, Hungary, Poland, Estonia, Latvia, Lithuania, Malta and Cyprus) that became members on 1 May 2004.

The Union of Turkish Insurance & Reinsurance Companies organized the 1st National Insurance Symposium, which was entitled "The Turkish

Insurance Sector during the EU Adaptation Process". The Symposium provided a platform for discussion of issues the national insurance sector faces and encouraged the finding of common solutions.

The European Commission's Progress Report for Turkey, published on 9 November 2005, provided detailed information about recent developments in the Turkish insurance sector, related significant issues that have emerged during the adaptation period, and identified those sector-related issues that should have priority. This report states that the basic difference between the insurance sectors of Turkey and the EU is found in the life insurance branch and that, while the dominant insurance branch in the EU is life insurance, in Turkey it is the non-life branch, and that the life insurance branch share has been steadily decreasing in Turkey. Current data about the life insurance sector reveals that Turkey lags behind even Hungary, which ranks 18th in the EU. Within the EU, 58% of premium production comes from the life insurance branch, with non-life generating the remaining 42%. The portfolio shares of accident and fire branches in Turkey are similar to those in the EU.

Solvency in the Turkish insurance sector emerged as a major priority for the sector in Turkey's EU adaptation process

efforts. In this regard, the Solvency-II Project was initiated and discussion of its affects on the sector has started.

The proliferation of foreign players through mergers and acquisitions will bring new perspectives and disciplines to the sector and the resulting technical and procedural improvements should positively affect the profitability of the sector.

On the assumption that current economic conditions continue on a positive course, 2006 will yield better results than 2005 for the insurance sector.

## DEVELOPMENTS IN THE COMPANY

Our company, in common with Yapı Kredi Group as a whole, witnessed important developments in 2005. With the acquisition of Yapı ve Kredi Bank and its affiliates, Koç Financial Services became one of Turkey's leading finance groups.

Koç Group, which operates in the durable goods, food, retail, energy, financial services, tourism, construction and IT sectors, was established in 1926. Koç Financial Services, which unites all financial services companies of Koç Group, started operations in 2001 with the partnership of Koçbank, Koç Leasing, Koç Investments, Koç Asset Management, Koç Factoring, Koçbank Netherlands NV and Koçbank Azerbaijan.

Koç Group gained in strength in the financial and banking sectors with the acquisition of Yapı ve Kredi Bank and its affiliates. Koç Financial Services is now 4th in Turkey with its 10% share in terms of assets, 3rd with its 11% market share of loan volume, and 4th with its 10% market share of deposit volume. Koç Financial Services is the Turkish sector's leader in financial leasing, asset management, investment banking and brokerage services and factoring.

UniCredito, which has a 50% share in Koç Financial Services (equal to Koç Group's share), currently renders banking services to 28 million customers

in 19 countries through its 7000 branches and 140,000 employees. With an 18% market share, it is the market leader in Austria and takes second place in Germany and Italy with a 5% market share. Partnership agreements signed in Central and Eastern Europe make the company twice the size of its major competitor.

Before and after the 2005 acquisition, Yapı Kredi Sigorta continued to look ahead and initiate development projects to provide better quality, faster and more efficient services nationally.

Organization restructuring activities started in 2004 provided more effective and faster services, contributed to employee efficiency and increased sales efficiency by means of closer contact with sales channels. These restructuring efforts continued in 2005. In this regard, the Technical Management Department was divided into sub-departments of Accident, Fire, Marine, Risk Engineering, Agency Support and Customer Services with the aim of enhancing departmental focus on different insurance problems and their solutions. The work of our Special Risks & Engineering Department continues under two new departments, the Special Risks Department and the Engineering Department. With this new organization, not only do the accident, fire, marine, and engineering branches benefit from the formation of specialized risk assessment departments, but also

these departments are supplemented by the Risk Engineering Department, which provides assessment and preliminary evaluation services related to all elementary branches, enabling the company to better evaluate risk and provide the right insurance products in a timely fashion. The Agency Support and Customer Support departments assist sales channels and the improvement of service quality and the Special Risks Department has improved the company's handling of major accounts and brokers as well as some international transactions above a certain limit.

To keep pace with the rapid technological developments taking place globally and to carry technological advantages to our customers, the Elementary Insurance Solution software project, which involves redesigning and renewing our insurance software, was started in July. With the involvement of a software development company experienced in the insurance sector and an international consultancy company, the software is planned to be ready in 2007. Its completion will ensure the company's software is compatible with future applications as well as current conditions. The company has held interviews with various software development companies for the renewal of the health branch software and the process is now at the agreement stage. Over its 63 years, Yapı Kredi Sigorta has

consistently been in the forefront of innovation in the sector and, as a result of these projects, it will achieve a more flexible structure and provided better quality and faster services, thereby re-asserting itself as the creative leader of the insurance sector in Turkey.

To implement the "innovative organization" concept applied by many leading innovative firms in various sectors around the world, Yapı Kredi Sigorta has started a new project, "We are creating the future". All Yapı Kredi Sigorta employees have taken the initiative to create the corporate culture of the future through innovation, which entails coming up with value-creating ideas and ways of distinguishing the company from its rivals and increasing its competitiveness.

Another project started in 2005 improves the services our agencies provide. The creation of a new Transaction Centre enables our agencies to create insurance policies with the use of their own passwords, thereby allowing our agencies to complete their transactions without delay, which is especially important during intense business periods.

Yapı Kredi Sigorta has started detailed actuarial work to establish an improved auto insurance tariff structure and so provide our agencies with a competitive advantage and enable them to develop

profitable portfolios. After the implementation of the new tariff system, the auto insurance portfolio will be closely monitored with regard to established criteria, changes will be compared with market conditions and, as a result, a more rational and sustainable pricing policy will be established and updated continuously. We will continue in a similar vein in reassessing the other branches.

Travel health insurance now benefits from faster service through on-line policy creation that allows the client to take immediate delivery of his or her policy.

Our WorldCard credit card campaigns, a tangible sign of our synergy with Yapı ve Kredi Bank, allow us to reach about five million WorldCard customers and offer them advantageous deals on our insurance products. The "Extraordinary Days" campaign conducted at Yapı ve Kredi Bank branches promoted insurance services. This synergy between Yapı Kredi Sigorta and Yapı ve Kredi Bank will increase with new projects and these will be shared with other Koç Financial Services companies.

Proliferation of our agency sales channels continued in 2005. From 700 agencies at the end of 2004, the network increased to 745 at the end of 2005. In addition to campaigns to increase agency effectiveness, we started an agency bulletin to strengthen ties

between our agencies and the headquarters. The bulletin allows our company to communicate rapidly changes in implementation and details of campaigns and reward programs. In addition, a new instant messenger service facilitates communication between the headquarters and agencies.

To improve our services to health insurance policyholders, we increased the number of network institutions from 852 in 2004 to 976 in 2005. Our network of contracted physicians enables our policyholders to make use of the most convenient health centers without paying a contributing share. It rose from 272 physicians in 2004 to 355 at the end of 2005 and the scheme expanded to include Ankara, Bursa, Adana and Yalova.

With regard to shared reinsurance agreements, in 2005 our company continued to work with a panel under the leadership of Munich Re, one of the largest reinsurance companies in the world. The panel consists of major international reinsurance companies such as Everest Re, Partner Re, and Scor. The excess of loss reinsurance agreement for natural disasters and particularly for earthquakes was established with the participation of leading reinsurance companies such as Swiss Re and Lloyd's.



## TECHNICAL RESULTS

## TECHNICAL RESULTS

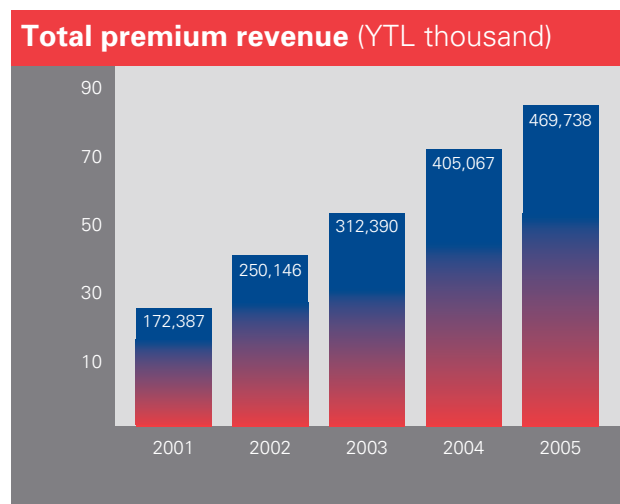
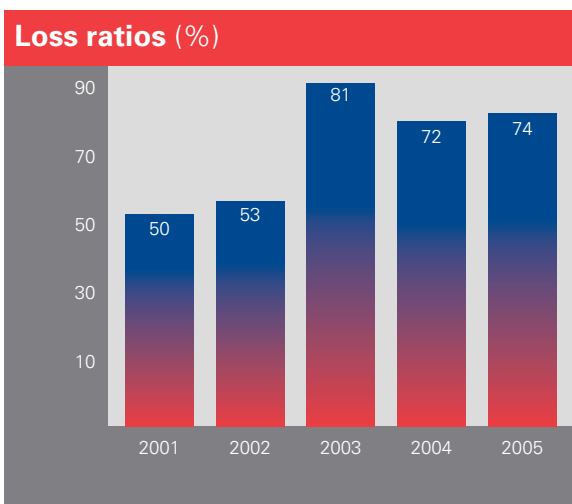
Political and economic stability brought favorable trends in 2005, as it had in 2004. This general economic trend had a positive effect on the insurance sector as a whole and made 2005 a favorable year for our company, which saw total premium production increase by 16%.

Analysis of our company's premium income reveals that the greatest increase, 23%, was obtained in the engineering branch. The second largest increase was in the health branch, which rose 19%, and the third in the accident branch, with 18%. As a result, our company continued to hold a place in the sector's top five.

Accident and health remained the dominant branches, with their respective portfolio shares of 42% and 37% in 2005. Each of these branches increased its share one percentage point.

Competition in the health branch and auto insurance in the accident branch created a challenging environment in the sector and the resulting price-cutting created financial pressures for many mid-sized companies.

Our underwriting profitability rate, which was 5% in 2004, increased to 9% in 2005.



## LOSS RATIOS

	2000	2001	2002	2003	2004	2005
Premium (YTL thousand)	80,083	172,387	250,146	312,390	405,067	469,738
Incurred loss (YTL thousand)	37,365	85,935	132,517	196,991	258,270	328,024
Loss ratios (%)	52	50	53	81*	72*	74*
Underwriting profit (YTL thousand)	9,881	16,578	16,814	(5,529)*	21,696*	44,183*
Underwriting profit ratios (%)	12	10	7	(2)*	5*	9*

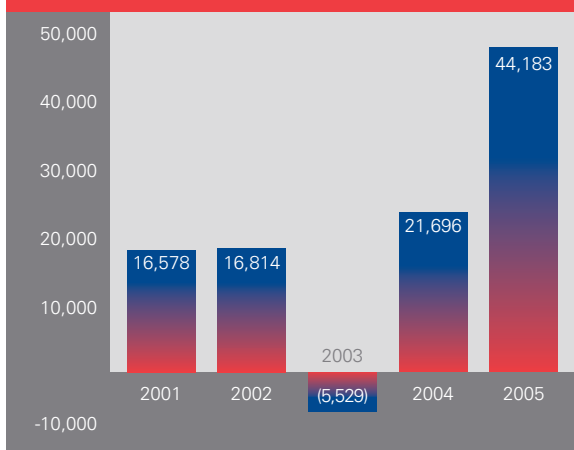
\* Indicates the values calculated in accordance with the "earned premium" principle in the practice of "pro rata setting aside of the reserve for unearned premiums".

## PREMIUM REVENUES AND THEIR PORTFOLIO SHARES

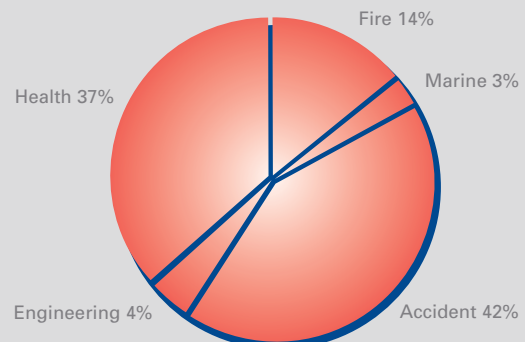
BRANCH	PREMIUM REVENUES (YTL thousand) 2005	CHANGE (%)	PORTFOLIO SHARE (%)
Fire*	66,919	3	14
Marine	12,066	5	3
Accident	198,403	18	42
Engineering	20,503	23	4
Health	171,847	19	37
<b>TOTAL</b>	<b>469,738</b>	<b>16</b>	<b>100</b>

\* Figures for the Agricultural Branch are included.

### Underwriting profit (YTL thousand)



### Breakdown of premium revenue by branch



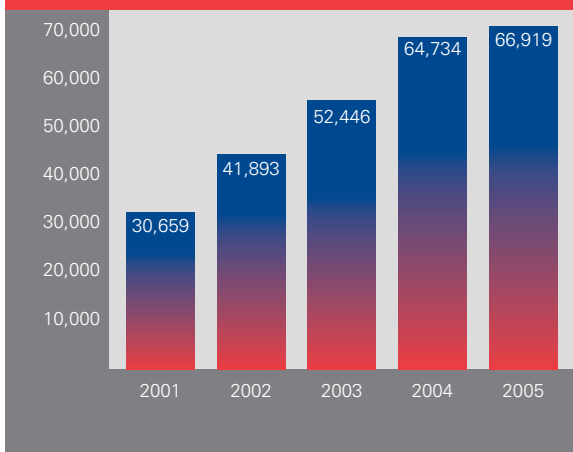
## FIRE BRANCH

Premium income increased 3% to YTL66.919 million in 2005. YTL42.829 million of this amount was ceded to reinsurance companies and we retained YTL24.090 million, making a retention ratio of 36%.

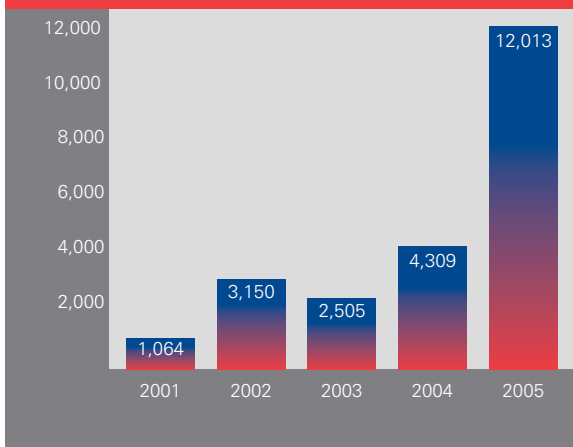
The loss ratio, which was 38% in 2004, increased to 39% in 2005. Claims totaled YTL33.391 million of which YTL14.874 million was paid and YTL18.517 million was outstanding.

As a result, the Fire Insurance branch closed 2005 with an underwriting profit of YTL12.013 million, making an underwriting profit ratio of 18%.

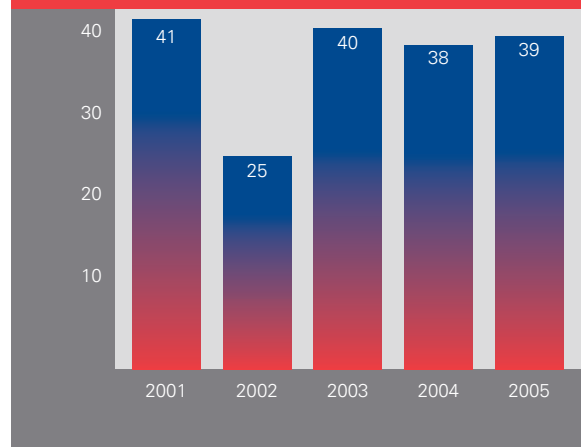
**Premium revenue (YTL thousand)**



**Underwriting profit (YTL thousand)**



**Loss ratios (%)**



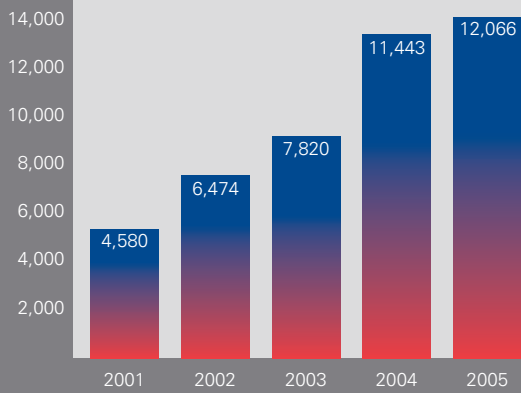
## MARINE BRANCH

Premium income increased 5% to YTL12.066 million. Of this, YTL6.664 million was ceded to reinsurance companies and YTL5.402 million retained, making a retention ratio of 45%.

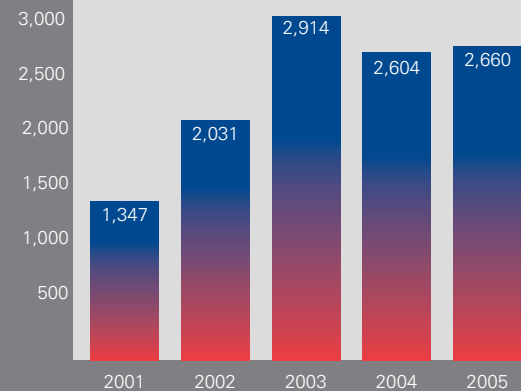
Claims totaled YTL10.788 million, of which YTL7.440 million was paid and YTL3.348 million was outstanding. The loss ratio reached 78%.

Underwriting profit was YTL2.660 million making an underwriting profit rate of 22%. The Marine Insurance branch closed 2005 with the second highest profit rate among the branches.

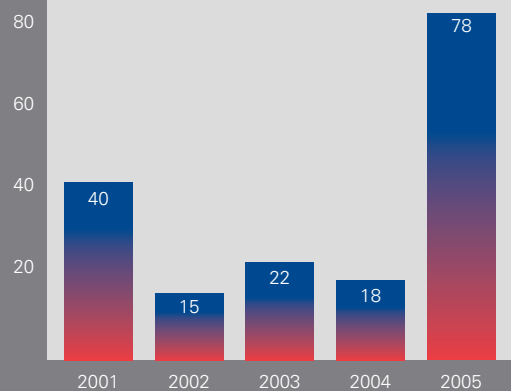
**Premium revenue (YTL thousand)**



**Underwriting profit (YTL thousand)**



**Loss ratios (%)**



## ACCIDENT BRANCH

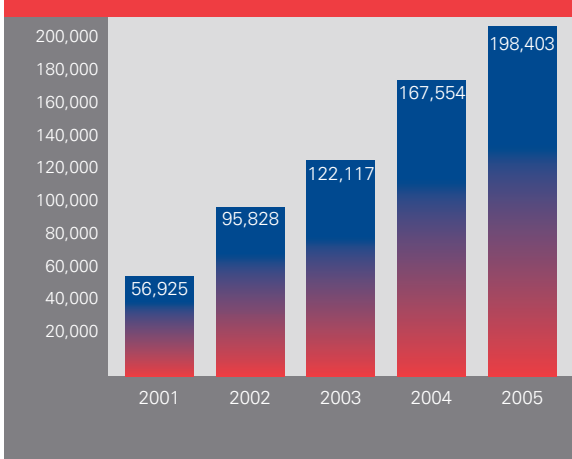
Premium income increased 18% in 2005 to reach YTL198.403 million and the portfolio share rose to 42%. As in 2004, the accident branch held the highest portfolio share of all the branches.

The amount ceded to reinsurance companies was YTL52.684 million and the retained amount YTL145.719 million, making a retention ratio of 73%.

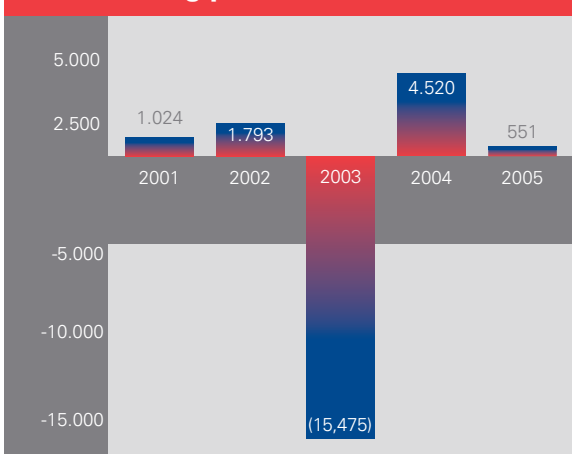
The loss ratio, which was 81% in 2004, increased in 2005 to 86%. Claims totaled YTL197.302 million, of which YTL143.707 million was paid and YTL53.595 million outstanding.

Because of intense price competition, particularly in auto insurance, the Accident Insurance branch closed 2005 with an underwriting profit of YTL0.551 million, making an underwriting profit ratio of 0.3%.

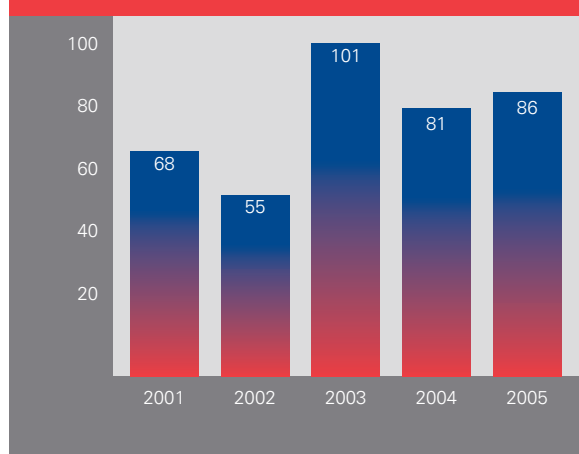
Premium revenue (YTL thousand)



Underwriting profit (YTL thousand)



Loss ratios (%)



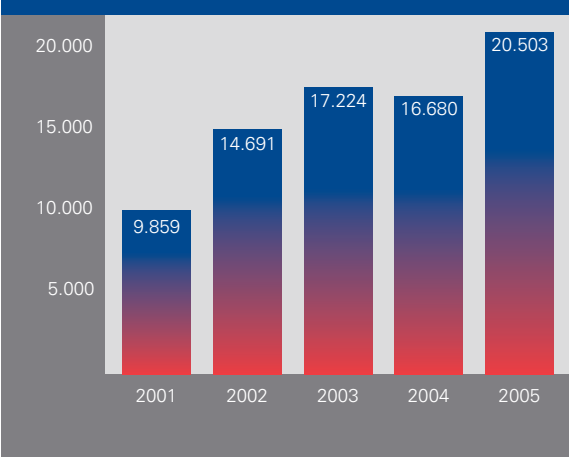
## ENGINEERING BRANCH

This branch reported the largest growth compared with 2004. Premium income totaled YTL20.503 million – an increase of 23% on 2004. YTL18.493 million of this amount was ceded to reinsurance companies and YTL2.009 million retained, making a retention ratio of 10%.

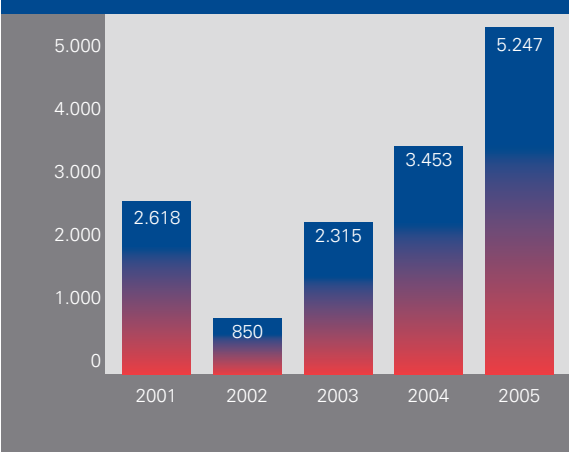
Claims totaled YTL18.459 million, of which YTL12.904 million was paid and YTL5.556 million was outstanding. The loss ratio declined in comparison with 2004 to close the year at 43%.

The Engineering Insurance branch closed 2005 with an underwriting profit of YTL5.247 million, resulting in an underwriting profit ratio of 26%, making this the branch with the highest underwriting profit rate.

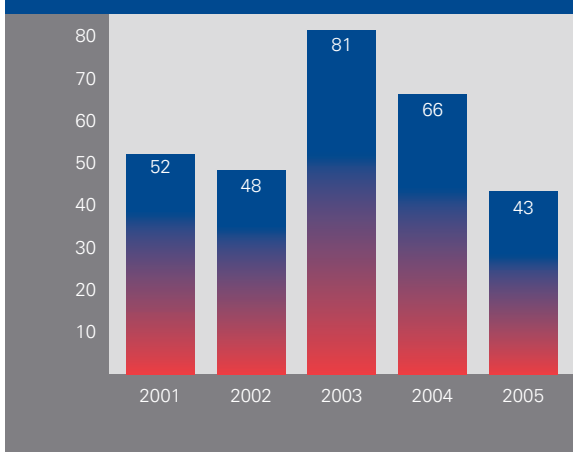
**Premium revenue (YTL thousand)**



**Underwriting profit (YTL thousand)**



**Loss ratios (%)**



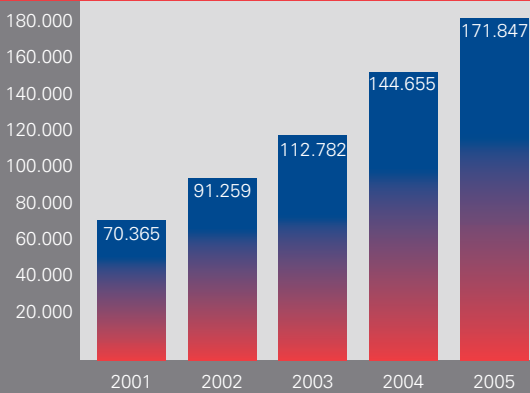
## HEALTH BRANCH

In 2005, premium income increased 19% to YTL171.847 million. Of this amount, YTL115.948 million came from individual policies and YTL55.899 million from corporate policies. The share of this branch in our portfolio increased one percentage point in 2005 to 37%.

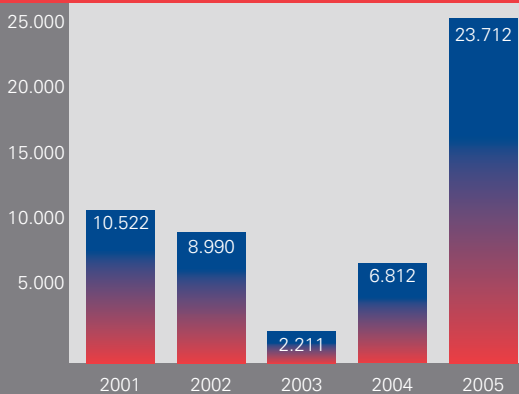
In the individual health category, the total number of individual policyholders, which was 101,187 at the end of 2004, increased 28% to 129,076 at the end of 2005. Meanwhile in the corporate category, the number of corporate policyholders, which was 56,651 at the end of 2004, increased 9% to 61,570 at the end of 2005.

In the health insurance branch, claims in 2005 totaled YTL128.247 million, of which YTL125.769 million was paid and YTL2.478 million was outstanding. The loss ratio was 79% and the underwriting profit ratio increased nearly 2.5 times to YTL23.712 million, making an underwriting profit ratio of 14%.

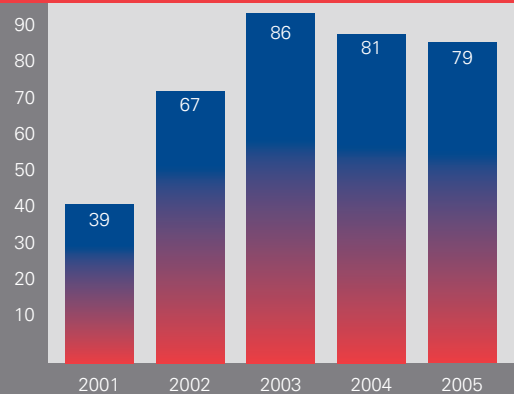
Premium revenue (YTL thousand)



Underwriting profit (YTL thousand)



Loss ratios (%)



## AFİFE THEATRE AWARDS

In the summer of 1996, Yapı Kredi Sigorta initiated a long-term support program involving various art activities for people of different ages. The Yapı Kredi Sigorta Art Activities program aims to raise overall public interest in art.

The Yapı Kredi Sigorta Afife Theatre Awards was this project's first step.

These annual awards are dedicated to Turkey's first Muslim actress, Afife Jale, and they were started in 1997. The awards ceremony arouses great interest from the art community and the media. The Yapı Kredi Sigorta Afife Theatre Awards was organized for the 9th time on 18 April 2005, when there was a magnificent awards ceremony.

Besides awards in 14 categories, special awards were also presented: the Muhsin Ertuğrul Special Award to Cüneyt Gökçer, the Nisa Serezli Aşkıner Special Award to Erol Günaydın, the Cevat Fehmi Başkut Special Award to Nesrin Kazankaya, the New Generation for the Theatre Special Award to the young actors and actresses of Oyun Atölyesi and the Yapı Kredi Sigorta Special Award to Müjdat Gezen.

Our company views the Yapı Kredi Sigorta Afife Theatre Awards as a means of showing appreciation for the individual successes of the actors and actresses as well as demonstrating respect for art and artists. We aim to continue to support the arts for many years to come.

## STATUTORY AUDITORS' REPORT

# STATUTORY AUDITORS' REPORT TO THE GENERAL ASSEMBLY OF YAPI KREDİ SİGORTA A.Ş.

2 March 2006

Company	Name: Yapı Kredi Sigorta A.Ş. Headquarters: İstanbul Paid-in Capital: YTL 80,000,000 Principal Business Activity: Insurance
Auditors	Name, Surname: Turgut Ağlen Ayşe İdil Kural Terms of office: 01.01.2005 - 14.10.2005 Name, Surname: Mehmet Erkan Özdemir Ahmet Ertüz Terms of office: 14.10.2005 - 31.12.2005 Shareholder Status: Not shareholders in the company
Number of Board of Directors meetings attended and number of auditors' meetings held	The Audit Committee members attended some of the Board of Directors' meetings and two Audit Committee meetings were performed
Scope, dates, and results of examinations performed on the Company's accounts, books, and documents	Yapı Kredi Sigorta A.Ş.'s books of accounts were examined once every three months. No issues deserving of criticism were observed.
Number of cash counts performed at the Company cashier's office in accordance with the requirements of subparagraph 3 of paragraph 1 of article 353 of the Turkish Commercial Law and the conclusions reached	Examinations that we conducted once every three months turned up no issues deserving of criticism.
Dates on which examinations were performed in accordance with the requirements of subparagraph 1 of paragraph 4 of article 353 of the Turkish Commercial Law and the conclusions that were reached:	Our examinations determined that negotiable instruments were present and conformed to the records.
Charges or complaints of improprieties received and the action taken	No charges or complaints of improprieties were referred to us.

We have examined the accounts and transactions of the firm of Yapı Kredi Sigorta A.Ş. for the period 1 August 2005-31 December 2005 for compliance with the requirements of the Turkish Commercial Law, the Company's articles of incorporation, relevant laws and regulations, and generally accepted accounting principles and standards.

In our opinion: the enclosed balance sheet which is prepared in accordance with the requirements of the regulation of the Capital Markets Board ("CMB") Communique XI No 25 and audited by independent auditing firm as of December 31, 2005 accurately reflects the true financial standing of the Company on that date, the income statement which is prepared in accordance with the requirements of the regulation of the Capital Markets Board ("CMB") Communique XI No 25 and audited by independent auditing firm for the period 1 January 2005-31 December 2005 accurately and truly reflects the results of business activities during the same period.

We hereby recommend that the balance sheet and income statement be approved and that the members of the Board of Directors be acquitted of their fiduciary responsibilities.

Statutory Auditors

Mehmet Erkan ÖZDEMİR



Ahmet ERTÜZ





**CORPORATE GOVERNANCE PRINCIPLES  
COMPLIANCE REPORT**

### 1. Statement of compliance with corporate governance principles

During the fiscal year ending on 31 December 2005 our Company is continuing corporate governance compliance activities which were initiated in prior year. Additionally, we plan to conclude the issues as to carry out work on keeping stakeholders informed and involving them in management in 2006, to appoint a representative in 2006 who will be responsible for conducting relations between management and employees, to appoint an independent member in the Board of Directors Meeting.

## PART I - SHAREHOLDERS

### 2. Shareholder Relations Unit

A Shareholder Relations Unit has been set up pursuant to Board of Directors resolution 60 dated 23 December 2003. Assistant General Manager for Financial Affairs İ. Tankut Eren (ieren@yksigorta.com.tr); (0212 336 06 15) and Financial Affairs Manager Mustafa Teoman Çelen (tcelen@yksigorta.com.tr); (0212 338 08 41) are responsible for this unit.

In main outline, the duties and responsibilities of the Investor Relations Unit consist of the following and similar activities:

- Ensure that shareholders are able to exercise their rights as shareholders and to manage communications between shareholders and the Board of Directors;
- Ensure that records pertaining to shareholders are maintained in ways that are valid, reliable, and timely;
- Respond to shareholders' written requests for information on all matters about the Company that are subject to public disclosure and are not in the nature of commercial secrets;
- Ensure that general meetings are held in accordance with current laws and regulations and with the provisions of the articles of incorporation;
- Prepare the minutes of general meetings and have them registered and announced; send documents to appropriate public authorities;
- Supervise and monitor all issues related to public disclosures in accordance with the requirements of law and the Company's public disclosure policy.

### 3. Shareholders' exercise of their right to obtain information

The Company's corporate website at [www.yksigorta.com.tr](http://www.yksigorta.com.tr) is used actively to announce issues that might affect shareholders' exercise of their rights. Shareholders made no requests of information from the Company during the reporting period.

#### **4. Information about general meetings**

Our Company's annual general meeting was held on 30 March 2005 and extraordinary general meeting was held on 14 October 2005 with the attendance of the legally prescribed quorum. Registered letters inviting shareholders to attend the meetings were sent out and the invitations were also published in two different newspapers. There are no specified periods of time in which holders of registered shares of stock are required to have entries made in the shareholders' register in order to take part in general meetings.

The Company's articles of incorporation contain no provisions requiring decisions of a highly important nature such as demergers or buying, selling, or leasing substantial amounts of assets and property to be taken at a general meeting.

General meeting minutes will be made available for shareholders to examine on our corporate website in 2005.

To facilitate shareholders' participation in general meetings, announcements concerning the meetings are made through ISE and through the media. The annual report, balance sheet, profit/loss statement, and statutory auditors' report as well as information about the date and agenda of general meetings are made available for shareholders to examine fifteen days before the meeting date.

#### **5. Voting rights and minority rights**

None of our Company's shares incorporate special voting rights. Minority shareholding interests are not represented in management. There are no companies in which there are reciprocal shareholding interests. The Company articles of incorporation contain no provisions governing the accumulated voting method.

#### **6. Dividend payment policy and timing**

There are no special rights concerning anyone's participation in the Company's profits. The form and timing of the payment of dividends are specified in articles 37 and 38 of the Company articles of incorporation. Dividends in previous years were paid within the legally prescribed periods of time.

#### **7. Transferring shares**

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

### **8. Company disclosure policy**

Information that is publicly disclosed by our Company is divulged in such away as to assist the individuals and organizations who might benefit from the information in making decisions while also ensuring that such disclosure is made in a timely manner and in keeping with the principles of being accurate, complete, intelligible, interpretable, conveniently accessible at low cost, and equally available to all.

In addition, İ.Tankut Eren and Mustafa Teoman Çelen, who are also responsible for managing shareholder relations, are charged with supervising and monitoring all issues related exclusively to public disclosures.

### **9. Special circumstance announcements**

Our Company made 15 special circumstance announcements in 2005 pursuant to CMB regulations. No special circumstance announcements were made on foreign stock exchanges because our Company's shares are not quoted on such exchanges.

### **10. The internet site and its content**

Our Company has been using this website to make public announcements for many years. The website contains information about our Company's shareholder and management structures, annual reports, financial statements and reports, and special circumstance announcements as well as forms for asking our Company questions.

### **11. Disclosure of non-corporate ultimate shareholders who have a controlling interest**

There are no non-corporate ultimate shareholders with which the Company has an indirect or reciprocal shareholding interest.

### **12. Public disclosure of those who may have access to insider information**

Because our Company conducts its activities through a large number of different headquarters departments, it is not possible to make an accurate assessment of which individuals might have access to insider information. Information about employees who serve as managers at our Company is provided in annual reports.

### **13. Keeping stakeholders informed**

Company employees are kept informed about Company activities by the general manager and appropriate assistant general managers as circumstances dictate.

Publicly disclosed information is also made available to employees and other stakeholders via our corporate website.

### **14. Stakeholder participation in management**

Our Company is a joint-stock company and is managed by its legally-prescribed organs. Issues that require these organs to make decisions are first assessed examined and assessed by the appropriate management levels and then submitted to the appropriate decision-making organ for its approval. Suggestions and ideas submitted by stakeholders are also assessed and taken into consideration in this decision-making process as well.

### **15. Human resources policy**

The declared objective of the Human Resources Department is to conduct modern human resources practices based on success so as to recruit qualified human resources and employ them in the most productive way in line with our Company's goals and strategies.

Employees who are members of the human resources team play an active role in conducting relations with other Company personnel. Visits are made to our operational units and employees' needs and demands are regularly queried and suggestions are entertained at the workplace. In addition, our corporate intranet is open to all employees and serves as a continuous channel of communication between employees and the Human Resources Department.

We maintain a working environment in which rules and practices are clearly shared with all personnel. Any complaints from personnel are resolved by the Human Resources Department by putting the best interests of both the Company and its employees at the highest level. In dealing with any complaints the management of the appropriate units are involved as well and every effort is made to understand the source of the problem and to prevent its recurrence.

### **16. Relations with customers and suppliers**

Detailed information about all our products is available on our website as is complete information about all our special and general conditions. The website also contains

a mechanism whereby users may direct questions, suggestions, and complaints to the Company. Our email address [yksigorta@yksigorta.com.tr](mailto:yksigorta@yksigorta.com.tr) is also available for the same purpose. Thanks to our Call Center, it is possible to gain access to information by means of a single phone call and obtain full details about products and policies and resolve any problems. Complaints directed to our Company are handled through the Customer Complaint Tracking System. Activities at the center are reported to senior management on a monthly basis and the situation at the center is monitored at the highest levels. A customer who enters into a health insurance policy agreement has the unconditional right to cancel it within one month's time of the policy's issue.

### **17. Social responsibility**

Since the commissioning of the Statue of Akdeniz, regarded as an important work in the history of Turkish sculpture, and its installation in 1980 in front of the Company's headquarters where it became the Company's symbol, among our other efforts to foster the arts and artists include the Afife Theatrical Awards, the ninth of which were handed out to winners in 14 main and five special categories in 2005.

## **PART IV - THE BOARD OF DIRECTORS**

### **18. Structure and formation of the Board of Directors; independent members**

The Board of Directors consists of Seyit Kemal Kaya (Chairman), Federico Ghizzoni (Vice Chairman), Ahmet İlerigelen (Member), İbrahim Tamer Haşimoğlu (Member), Arcangelo Michele Vassallo (Member), Ahmet Murat Güvenel (Member- General Manager). There are no independent members on the board. There are no specific rules or restrictions pertaining to board members undertaking other duties outside the Company.

### **19. Qualifications of board members**

The Company's board of directors consists of people who satisfy the levels of knowledge and skills stipulated in the CMB's corporate governance principles and who possess specific experience and backgrounds.

### **20. Mission, vision, and strategic goals of the Company**

#### **Yapı Kredi Sigorta's vision:**

To make Yapı Kredi Sigorta an enduring and pioneering insurance trademark that is preferred by everyone in the Turkish insurance sector; to possess the experience and financial strength that makes it a reference point in the international insurance business.

**Yapı Kredi Sigorta's mission:**

To possess the advanced technical and sales infrastructure capable of immediately responding to all the insurance needs of Turkish society and in this way to number among the companies providing the best service in the sector by ensuring unconditional customer satisfaction.

Yapı Kredi Sigorta's corporate mission and vision have been publicly disclosed by both the Board of Directors and the Company's senior management through interviews, discussions, and publications appearing in the written and audiovisual media.

The Company's senior management periodically identifies, reviews, and revises Yapı Kredi Sigorta's long, medium, and short-term strategic objectives. After these have been approved by the Board of Directors, the action plans needed to accomplish them are developed by management. During its regular monthly meetings, the members of the Board of Directors review the Company's activities and performance as well as the degree to which short-term objectives have been met. Every six months, the degree to which medium and long-term objectives have been met is also reviewed, any instances of under-performance are scrutinized, and the measures that need to be taken are identified. In situations where targets are exceeded, they are reviewed and adjusted as necessary.

**21. Risk management and internal control mechanisms**

The Company's Internal Audit Department reports directly to the Board of Directors and is responsible for all activities in the areas of risk management and internal control. This department issues reports on its activities within the framework of the annual business plan.

**22. Authorities and responsibilities of board members and executives**

The authorities and responsibilities of the Board of Directors are spelled out in detail in article 16 of our Company's articles of incorporation.

**23. Operating principles of the Board of Directors**

Under our Company's articles of incorporation, the Board of Directors is required to meet at least once a month. During the reporting period, the board convened 25 times. There is a secretariat whose duty is to keep members of the board informed and maintain communication with and among them. This office also notifies members of meeting agendas prior to the meeting. Board members must be physically present at meetings. Decisions taken at board meetings are recorded in the Company's decision register.

## **24. Prohibition on doing business or competing with the Company**

During the reporting period, members of the Board of Directors engaged in no transactions with the Company and they complied with the prohibition on competing with the Company.

## **25. Rules of ethics**

Yapı Kredi Sigorta adheres to the principle of achieving maximum satisfaction among its shareholders by managing its insured risks in the best way possible and among its policyholders by fulfilling, at the highest level possible, their compensation and service expectations and its own commitments towards them. The Company has earned an outstanding reputation for itself in the sector as an upright and principled insurer that brooks no opportunity for misappropriation. It continuously strives to build on that standing. A variety of interactive communication channels are employed so that shareholders and policyholders are able to make their feelings clear to the Company and gain access to information. Making sure that information that is needed is accessible is a high-priority duty of every employee of the Company.

Yapı Kredi Sigorta is mindful of all the rules of law to which it is subject and it is respectful of individual rights and liberties. It pursues its activities honestly and openly, stressing at the highest level the importance of the element of confidence that is the foundation on which our sector stands.

Our Company's employees are expected to protect the reputation of Yapı Kredi Sigorta wherever they may be and to be bound by our Company's principles in all their actions. Employees are enjoined from adopting any attitude or from engaging in any act that is contrary to law or to social order.

## **26. Numbers, structures, and independence of committees within the Board of Directors**

Arcangelo Michele Vassallo (Member) and Ahmet İlerigelen (Member) are elected as responsible for audit committee by Board of Directors.

## **27. Financial rights provided to the Board of Directors**

Members of the Company's Board of Directors are not paid an honorarium as decided upon by the extraordinary general assembly on October 14, 2005

During the reporting period, the Company made no loans or extended any credit to any board member or manager; did not extend the terms or improve the conditions of any existing loans or credit already provided to them; did not extend credit under the rubric of personal loan or surety to them through any third party.

## **INDEPENDENT AUDITOR'S REPORT**

**YAPI KREDİ SİGORTA A.Ş.  
CONVENIENCE TRANSLATION OF  
THE INDEPENDENT AUDITOR'S REPORT  
FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2005  
(ORIGINALLY ISSUED IN TURKISH)**

1. We have audited the accompanying balance sheet of Yapı Kredi Sigorta A.Ş. (the "Company") as of 31 December 2005 and the related statement of income for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. The audit was conducted in accordance with the regulations on independent audit as required by Insurance Supervisory Law numbered 7397. These regulations require that the audit is planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit conducted provides a reasonable basis for our opinion.
3. Capital Markets Board ("CMB") Law, Section VII, article 50, paragraph (a), states that insurance companies are required to comply with their own specific laws in their establishment, audit, supervision, accounting and in the presentation of their financial statements. Consequently, accompanying financial statements are prepared in accordance with the Insurance Supervisory Law numbered 7397 and related regulations.
4. As explained in Note 11 to the balance sheet, the communiqué of the Undersecretariat of the Ministry of Treasury ("Treasury") regarding the Insurance Chart of Accounts and Prospects, (Insurance Accounting System Communiqué No.1) came into force on 1 January 2005. The Treasury also announced that since the chart of accounts has just come into force, comparative disclosure of interim and year-end financial statements is not required. In that respect, the Company has not presented its accompanying financial statements and the notes comparatively with prior periods.
5. The financial statements of the Company as of and for the year ended 31 December 2004 were audited by another auditor whose report dated 4 March 2005 expressed an unqualified opinion on those financial statements.
6. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at 31 December 2005 and the results of its operations for the year then ended in accordance with the regulations issued on accounting standards and principles as required by the Insurance Supervisory Law numbered 7397.

7. Without qualifying our opinion, we would like to draw your attention to the following matters:

- i) As explained in Note 11.1 to the balance sheet, with the article of the Treasury numbered 19387, dated 4 April 2005 insurance companies are required to restate their financial statements as of 31 December 2004 in accordance with "Financial Reporting in Hyperinflationary Economies" included in the regulations of the Capital Markets Board ("CMB") Communiqué XI No.25 published in the Official Gazette No:25290 dated 15 January 2003. In line with the decree of the CMB dated 17 March 2005, the Treasury also announced that insurance companies are not required to apply inflation accounting effective from 1 January 2005. Based on the above mentioned article of the Treasury, the Company has restated its financials as of 31 December 2004 in accordance with the regulations regarding "Financial Reporting in Hyperinflationary Economies" as a one time application and has not continued to apply inflation accounting effective from 1 January 2005.
- ii) As explained in detail in Note 11.10 to the balance sheet, as of 31 December 2005 marketable securities have been classified and measured differently than the previous year in accordance with the Insurance Chart of Accounts. The effect of the aforementioned change on marketable securities as of 31 December 2005 resulted in an increase of the marketable securities balance amounting to YTL 2.785.240.

8. Additional paragraph for convenience translation into English:

As discussed in Note 43 to the accompanying financial statements, the effects of differences between the accounting principles described in Note 11 to the financial statements, 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 in the accompanying financial statements. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations and changes in financial position and cash flows in accordance with accounting principles generally accepted in such countries and IFRS.

Başaran Nas Serbest Muhasebeci  
Mali Müşavirlik Anonim Şirketi  
a member of  
PricewaterhouseCoopers



Talar Gül, SMMM

Istanbul, 24 February 2006



## FINANCIAL RESULTS

**Yapı Kredi Sigorta A.Ş.**  
 Balance Sheet at 31 December 2005  
 (Amounts expressed in New Turkish lira ("YTL"))

**ASSETS**

**31.12.2005**

<b>1.</b>	<b>CURRENT ASSETS</b>	
<b>1.1</b>	<b>CASH AND CASH EQUIVALENTS</b>	<b>36,894,991.82</b>
1.1.1	Cash	261,740.19
1.1.2	Cheques Received	-
1.1.3	Banks	20,315,061.93
1.1.4	Cheques Given and Payment Orders(-)	-
1.1.5	Other Cash and Cash Equivalents	16,318,189.70
<b>1.2</b>	<b>FINANCIAL INVESTMENTS AND FINANCIAL ASSETS AT INSUREE'S RISK</b>	<b>106,088,003.98</b>
1.1.1	Available for Sale Investments	106,088,003.98
1.1.2	Held to Maturity Investments	-
1.1.3	Trading Investments	-
1.1.4	Loans	-
1.1.5	Provision for Loans(-)	-
1.1.6	Financial Assets at Insuree's Risk	-
1.1.7	Company's Shares	-
1.1.8	Provision for diminution in value(-)	-
<b>1.3</b>	<b>RECEIVABLES FROM OPERATIONS</b>	<b>141,824,392.51</b>
1.3.1	Due from Insurance Operations	152,542,485.52
1.3.2	Provision for Due from Insurance Operations(-)	(11,348,079.37)
1.3.3	Due from Reinsurance Operations	629,986.36
1.3.4	Provision for Due from Reinsurance Operations(-)	-
1.3.5	Premium Reserves	-
1.3.6	Loans to Insurees	-
1.3.7	Provision for Loans to Insurees(-)	-
1.3.8	Due from Private Pension Operations	-
1.3.9	Doubtful Receivables from Operations	1,271,611.36
1.3.10	Provision for Doubtful Receivables from Operations	(1,271,611.36)
<b>1.4</b>	<b>DUE FROM RELATED PARTIES</b>	<b>-</b>
1.4.1	Due from Shareholders	-
1.4.2	Due from Investments	-
1.4.3	Due from Subsidiaries	-
1.4.4	Due from Joint-Ventures	-
1.4.5	Due from Personnel	-
1.4.6	Due from Other Related Parties	-
1.4.7	Rediscount on Due from Related Parties(-)	-
1.4.8	Doubtful Receivables from Related Parties	-
1.4.9	Provision for Doubtful Receivables from Related Parties(-)	-
<b>1.5</b>	<b>OTHER RECEIVABLES</b>	<b>4,006,281.27</b>
1.5.1	Leasing Receivables	-
1.5.2	Unearned Leasing Revenue(-)	-
1.5.3	Deposits and Guarantees Given	25,825.76
1.5.4	Other Receivables	3,980,455.51
1.5.5	Rediscount on Other Receivables(-)	-
1.5.6	Other Doubtful Receivables	-
1.5.7	Provision for Other Doubtful Receivables(-)	-
<b>1.6</b>	<b>DEFERRED EXPENSES AND INCOME ACCRUALS</b>	<b>296,789.08</b>
1.6.1	Deferred Expenses	296,789.08
1.6.2	Accrued Interest and Rent Income	-
1.6.3	Income Accruals	-
1.6.4	Other Deferred Income and Expense Accruals	-
<b>1.7</b>	<b>OTHER CURRENT ASSETS</b>	<b>375,205.09</b>
1.7.1	Inventories for future months	141,145.74
1.7.2	Prepaid Taxes and Funds	231,343.82
1.7.3	Deferred Tax Assets	-
1.7.4	Job Advances	2,715.53
1.7.5	Advances to Personnel	-
1.7.6	Count Shortages	-
1.7.7	Other Current Assets	-
1.7.8	Provision for Other Current Assets(-)	-
<b>1.</b>	<b>TOTAL CURRENT ASSETS</b>	<b>289,485,663.75</b>

**ASSETS**

**31.12.2005**

<b>2.</b>	<b>NON-CURRENT ASSETS</b>	
<b>2.1</b>	<b>RECEIVABLES FROM OPERATIONS</b>	-
2.1.1	Due from Insurance Operations	-
2.1.2	Provision for Due from Insurance Operations(-)	-
2.1.3	Due from Reinsurance Operations	-
2.1.4	Provision for Due from Reinsurance Operations(-)	-
2.1.5	Premium Reserves	-
2.1.6	Loans to Insurees	-
2.1.7	Provision for Loans to Insurees(-)	-
2.1.8	Due from Private Pension Operations	-
2.1.9	Due from Other Operations	-
2.1.10	Provision for Due from Other Operations(-)	-
<b>2.2</b>	<b>DUE FROM RELATED PARTIES</b>	-
2.2.1	Due from Shareholders	-
2.2.2	Due from Investments	-
2.2.3	Due from Subsidiaries	-
2.2.4	Due from Joint-Ventures	-
2.2.5	Due from Personnel	-
2.2.6	Due from Other Related Parties	-
2.2.7	Rediscount on Due from Related Parties(-)	-
2.2.8	Doubtful Receivables from Related Parties	-
2.2.9	Provision for Doubtful Receivables from Related Parties(-)	-
<b>2.3</b>	<b>OTHER RECEIVABLES</b>	-
2.3.1	Leasing Receivables	-
2.3.2	Unearned Leasing Revenue(-)	-
2.3.3	Deposits and Guarantees Given	-
2.3.4	Other Receivables	-
2.3.5	Rediscount on Other Receivables(-)	-
2.3.6	Other Doubtful Receivables	-
2.3.7	Provision for Other Doubtful Receivables(-)	-
<b>2.4</b>	<b>FINANCIAL ASSETS</b>	<b>148,589,002.12</b>
2.4.1	Equity Securities	339,020.59
2.4.2	Investments	-
2.4.3	Investment Capital Commitments(-)	-
2.4.4	Subsidiaries	148,249,981.53
2.4.5	Subsidiaries Capital Commitments(-)	-
2.4.6	Joint-Ventures	-
2.4.7	Joint-Ventures Capital Commitments(-)	-
2.4.8	Financial Assets	-
2.4.9	Other Financial Assets	-
2.4.10	Provision for Diminution in Value of Financial Assets(-)	-
<b>2.5</b>	<b>TANGIBLE ASSETS</b>	<b>30,933,524.64</b>
2.5.1	Investment Property	-
2.5.2	Provision for Diminution in Value of Investment Property(-)	-
2.5.3	Property In Use	35,509,074.32
2.5.4	Machinery and Equipment	-
2.5.5	Furniture and Fixtures	24,158,427.55
2.5.6	Motor Vehicles	656,488.11
2.5.7	Other Tangible Assets	5,344,980.13
2.5.8	Leased Assets	-
2.5.9	Accumulated Depreciation(-)	(35,071,775.47)
2.5.10	Advances Given for Tangible Assets (Including CIP)	336,330.00
<b>2.6</b>	<b>INTANGIBLE ASSETS</b>	<b>681,934.80</b>
2.6.1	Rights	-
2.6.2	Goodwill	-
2.6.3	Start-up Costs	-
2.6.4	Research and Development Expenses	-
2.6.5	Other Intangible Assets	2,617,449.03
2.6.6	Accumulated Amortisation(-)	(1,935,514.23)
2.6.7	Advances Given for Intangible Assets	-



**Yapı Kredi Sigorta A.Ş.**  
Balance Sheet at 31 December 2005  
(Amounts expressed in New Turkish lira ("YTL"))

<b>2.7</b>	<b>DEFERRED EXPENSES AND INCOME ACCRUALS</b>	<b>69,428.44</b>
2.7.1	Deferred Expenses	69,428.44
2.7.2	Accrued Income	-
2.7.3	Other Deferred Income and Expense Accruals	-
<b>2.8</b>	<b>OTHER NON-CURRENT ASSETS</b>	<b>-</b>
2.8.1	Foreign Exchange in Cash Account	-
2.8.2	Foreign Exchange Accounts	-
2.8.3	Inventories for future years	-
2.8.4	Prepaid Taxes and Funds	-
2.8.5	Deferred Tax Assets	-
2.8.6	Other Non-Current Assets	-
2.8.7	Other Non-Current Assets Depreciation(-)	-
2.8.8	Provision for Diminution in Value of Other Non-Current Assets	-
<b>2.</b>	<b>TOTAL NON-CURRENT ASSETS</b>	<b>180,273,890.00</b>

**LIABILITIES**

**31.12.2005**

<b>3.</b>	<b>CURRENT LIABILITIES</b>	
<b>3.1</b>	<b>FINANCIAL LIABILITIES</b>	<b>1,276.62</b>
3.1.1	Due to Credit Institutions	-
3.1.2	Leasing Payables	1,422.98
3.1.3	Deferred Leasing Costs(-)	(146.36)
3.1.4	Current Maturities of Long Term Credits and Accrued Interest	-
3.1.5	Current Maturities of Bonds and Accrued Interest	-
3.1.6	Other Issued Debt Securities	-
3.1.7	Value Differences of Other Issued Debt Securities(-)	-
3.1.8	Other Financial Liabilities	-
<b>3.2</b>	<b>PAYABLES FROM OPERATIONS</b>	<b>56,105,300.88</b>
3.2.1	Payables from Insurance Operations	20,288,596.21
3.2.2	Payables from Reinsurance Operations	14,365,223.86
3.2.3	Premium Reserves	1,859,257.81
3.2.4	Payables from Private Pension Operations	-
3.2.5	Payables from Other Operations	19,592,223.00
3.2.6	Rediscounts on other notes payable (-)	-
<b>3.3</b>	<b>DUE TO RELATED PARTIES</b>	<b>1,462,019.51</b>
3.3.1	Due to Shareholders	51.53
3.3.2	Due to Investments	-
3.3.3	Due to Subsidiaries	-
3.3.4	Due to Joint-Ventures	-
3.3.5	Due to Personnel	38,735.00
3.3.6	Due to Other Related Parties	1,423,232.98
<b>3.4</b>	<b>OTHER PAYABLES</b>	<b>2,729,793.04</b>
3.4.1	Deposits and Guarantees Received	58.59
3.4.2	Rediscount on Other Payables(-)	2,729,734.45
3.4.3	Rediscount on Other Payables(-)	-
<b>3.5</b>	<b>INSURANCE TECHNICAL PROVISIONS</b>	<b>204,229,606.27</b>
3.5.1	Unearned Premium Reserve-Net	144,558,150.49
3.5.2	Unexpired Risks Reserve-Net	-
3.5.3	Mathematical Reserve-Net	-
3.5.4	Outstanding Claim Provision-Net	44,103,922.28
3.5.5	Bonus Provision-Net	-
3.5.6	Provision for Life Policies at Insuree's Risk-Net	-
3.5.7	Other Technical Reserves-Net	15,567,533.50
<b>3.6</b>	<b>TAXES AND OTHER FISCAL LIABILITIES</b>	<b>5,415,842.08</b>
3.6.1	Taxes and Funds Payable	4,839,574.91
3.6.2	Social Security Withholdings Payable	576,267.17
3.6.3	Overdue, Deferred or Restructured Taxes and Other Fiscal Liabilities	-
3.6.4	Other Taxes and Fiscal Liabilities	-
3.6.5	Corporate Tax Provision and Other Fiscal Liabilities	-
3.6.6	Prepaid Corporate Tax and Other Fiscal Liabilities(-)	-
3.6.7	Other Taxes and Fiscal Liabilities Provision	-
<b>3.7</b>	<b>PROVISIONS FOR OTHER RISKS</b>	<b>7,712,501.51</b>
3.7.1	Provision for Employment Termination Benefits	7,712,501.51
3.7.2	Provision for Expense Accruals	-
<b>3.8</b>	<b>DEFERRED INCOME AND EXPENSE ACCRUALS</b>	<b>3,270,043.89</b>
3.8.1	Deferred Interest and Rent Income	-
3.8.2	Deferred Expenses	3,270,043.89
3.8.3	Other Deferred Income and Expense Accruals	-
<b>3.9</b>	<b>OTHER CURRENT LIABILITIES</b>	<b>-</b>
3.9.1	Deferred Tax Liabilities	-
3.9.2	Count Overages	-
3.9.3	Other Current Liabilities	-
<b>3.</b>	<b>TOTAL CURRENT LIABILITES</b>	<b>280,926,383.80</b>

**LIABILITIES**

**31.12.2005**

<b>4.</b>	<b>NON-CURRENT LIABILITIES</b>	-
<b>4.1</b>	<b>FINANCIAL LIABILITIES</b>	-
4.1.1	Due to Credit Institutions	-
4.1.2	Leasing Payables	-
4.1.3	Deferred Leasing Costs(-)	-
4.1.4	Issued Debt Securities	-
4.1.5	Other Issued Debt Securities	-
4.1.6	Value Differences of Other Issued Debt Securities(-)	-
4.1.7	Other Financial Payables	-
<b>4.2</b>	<b>PAYABLES FROM OPERATIONS</b>	-
4.2.1	Payables from Insurance Operations	-
4.2.2	Payables from Reinsurance Operations	-
4.2.3	Premium Reserves	-
4.2.4	Payables from Private Pension Operations	-
4.2.5	Payables from Other Operations	-
<b>4.3</b>	<b>DUE TO RELATED PARTIES</b>	-
4.3.1	Due to Shareholders	-
4.3.2	Due to Investments	-
4.3.3	Due to Subsidiaries	-
4.3.4	Due to Joint-Ventures	-
4.3.5	Due to Personnel	-
4.3.6	Due to Other Related Parties	-
<b>4.4</b>	<b>OTHER PAYABLES</b>	-
4.4.1	Deposits and Guarantees Received	-
4.4.2	Other Payables	-
4.4.3	Rediscount on Other Payables(-)	-
<b>4.5</b>	<b>INSURANCE TECHNICAL PROVISIONS</b>	-
4.5.1	Unearned Premium Reserve-Net	-
4.5.2	Unexpired Risks Reserve-Net	-
4.5.3	Mathematical Reserve-Net	-
4.5.4	Outstanding Claim Provision-Net	-
4.5.5	Bonus Provision-Net	-
4.5.6	Provision for Life Policies at Insuree's Risk-Net	-
4.5.7	Other Technical Reserves-Net	-
<b>4.6</b>	<b>PROVISIONS FOR OTHER RISKS</b>	-
4.6.1	Provision for Employment Termination Benefits	-
<b>4.7</b>	<b>OTHER LIABILITIES AND PROVISIONS</b>	-
4.7.1	Other Liabilities	-
4.7.2	Overdue, Deferred or Restructured Taxes and Other Fiscal Liabilities	-
4.7.3	Other Liabilities and Expense Accruals	-
<b>4.8</b>	<b>DEFERRED INCOME AND EXPENSE ACCRUALS</b>	-
4.8.1	Deferred Interest and Rent Income	-
4.8.2	Deferred Expenses	-
4.8.3	Other Deferred Income and Expense Accruals	-
<b>4.9</b>	<b>OTHER NON-CURRENT LIABILITIES</b>	-
4.9.1	Deferred Tax Liabilities	-
4.9.2	Other Non-Current Liabilities	-
<b>4.</b>	<b>TOTAL NON-CURRENT LIABILITIES</b>	-

**SHAREHOLDER'S EQUITY**

**31.12.2005**

<b>5.</b>	<b>SHAREHOLDER'S EQUITY</b>	
<b>5.1</b>	<b>SHARE CAPITAL</b>	<b>239,500,781.06</b>
5.1.1	Nominal Capital	80,000,000.00
5.1.2	Unpaid Capital(-)	-
5.1.3	Adjustments to Share Capital	159,500,781.06
5.1.4	Adjustments to Share Capital(-)	-
<b>5.2</b>	<b>CAPITAL RESERVES</b>	<b>2,440.58</b>
5.2.1	Share Premium	-
5.2.2	Profit from Stock Abrogations	-
5.2.3	Revaluation Fund	-
5.2.4	Foreign Currency Translation Differences	-
5.2.5	Other Capital Reserves	2,440.58
<b>5.3</b>	<b>PROFIT RESERVES</b>	<b>44,178,676.99</b>
5.3.1	Legal Reserves	35,737,689.86
5.3.2	Statutory Reserves	1,185.74
5.3.3	Extraordinary Reserves	5,428,032.93
5.3.4	Special Reserves	-
5.3.5	Valuation of Financial Assets	3,011,768.46
5.3.6	Other Profit Reserves	-
<b>5.4</b>	<b>RETAINED EARNINGS</b>	<b>-</b>
5.4.1	Retained Earnings	-
<b>5.5</b>	<b>ACCUMULATED DEFICIT(-)</b>	<b>(94,383,721.32)</b>
5.5.1	Previous Years' Losses	(94,383,721.32)
<b>5.6</b>	<b>NET PROFIT (LOSS) FOR THE PERIOD</b>	<b>(465,007.36)</b>
5.6.1	Net Profit for the Period	-
5.6.2	Net Loss for the Period(-)	(465,007.36)
<b>5.</b>	<b>TOTAL SHAREHOLDER'S EQUITY</b>	<b>188,833,169.95</b>

**Yapı Kredi Sigorta A.Ş.**

Statement of income for the period ended 31 December 2005

(Amounts expressed in New Turkish lira ("YTL"))

**31.12.2005**

<b>1. TECHNICAL INCOME</b>	-
<b>1.1 NON - LIFE TECHNICAL INCOME</b>	<b>339,660,680.34</b>
1.1.1 Earned Premiums-Net off Reinsurer's Share	330,870,900.20
1.1.1.1 Written Premiums -Net off Reinsurer's Share	346,205,235.42
1.1.1.2 Change in Unearned Premiums Reserve-Net off Reinsurer's Share	(15,334,335.22)
1.1.2 Investment Income Transferred from Non-Technical Income	5,205,112.69
1.1.3 Other Technical Income-Net off Reinsurer's Share	3,584,667.45
<b>1.2 NON - LIFE TECHNICAL EXPENSE</b>	<b>(346,466,531.11)</b>
1.2.1 Claims Occurred-Net off Reinsurer's Share	(251,420,063.21)
1.2.1.1 Paid Claims-Net off Reinsurer's Share	(237,842,708.48)
1.2.1.2 Change in Outstanding Claims-Net off Reinsurer's Share	(13,577,354.73)
1.2.2 Change in Bonus Provison-Net off Reinsurer's Share	-
1.2.3 Change in Other Technical Reserves-Net off Reinsurer's Share	(1,991,895.48)
1.2.4 Operating Expenses	(93,054,572.42)
<b>1.3 TECHNICAL INCOME-EXPENSE - NON LIFE (A-B)</b>	<b>(6,805,850.77)</b>
<b>1.4 LIFE TECHNICAL INCOME</b>	-
<b>1.5 LIFE TECHNICAL EXPENSE</b>	-
<b>1.6 TECHNICAL INCOME - LIFE (D-E)</b>	-
<b>1.7 PENSION TECHNICAL INCOME</b>	-
<b>1.8 PENSION TECHNICAL EXPENSE</b>	-
<b>1.9 TECHNICAL INCOME - PENSION (G-H)</b>	-

**Yapı Kredi Sigorta A.Ş.**

Statement of income for the period ended 31 December 2005

(Amounts expressed in New Turkish lira ("YTL"))

**31.12.2005**

<b>2.</b>	<b>NON - TECHNICAL INCOME-EXPENSE</b>	-
2.1	TECHNICAL INCOME EXPENSE - NONLIFE	(6,805,850.77)
2.2	TECHNICAL INCOME EXPENSE - LIFE	-
2.3	TECHNICAL INCOME EXPENSE - PENSION	-
2.4	GENERAL TECHNICAL INCOME-EXPENSE (C+F+I)	(6,805,850.77)
<b>2.5</b>	<b>INVESTMENT INCOME</b>	<b>15,482,642.52</b>
2.5.1	Income from Financial Investments	4,897,100.49
2.5.2	Income from Realization of Financial Investments	370,488.87
2.5.3	Valuation of Financial Investments	5,389,579.59
2.5.4	Foreign Exchange Gains	3,796,508.77
2.5.5	Income from Investments	4,393.94
2.5.6	Income from Subsidiaries and Joint-Ventures	-
2.5.7	Income from Property, Plant and Equipment	1,024,570.86
2.5.8	Income from Derivatives	-
2.5.9	Other Investments	-
2.5.10	Investment Income Transferred from Life Technical Income	-
<b>2.6</b>	<b>INVESTMENT EXPENSE</b>	<b>(8,675,963.95)</b>
2.6.1	Investment Management Expenses(-)	(21,744.83)
2.6.2	Dimunition in Value of Investments(-)	-
2.6.3	Loss from Realization of Financial Investments (-)	(69,833.00)
2.6.4	Investment Income Transferred to Non-Life Technical Income(-)	-
2.6.5	Loss from Derivatives(-)	-
2.6.6	Foreign Exchange Losses(-)	(4,968,197.29)
2.6.7	Depreciation Expenses(-)	(3,616,188.83)
2.6.8	Other Investment Expenses(-)	-
<b>2.7</b>	<b>INCOME AND LOSS FROM ORDINARY AND EXTRAORDINARY OPERATIONS</b>	<b>(465,835.16)</b>
2.7.1	Provisions(+/-)	(2,412,154.15)
2.7.2	Rediscounts(+/-)	921,396.11
2.7.3	Mandatory Earthquake Insurance(+/-)	657,753.91
2.7.4	Inflation Adjustment(+/-)	-
2.7.5	Deferred Tax Assets(+/-)	-
2.7.6	Deferred Tax Liabilities Expenses(+/-)	-
2.7.7	Other Income	227,186.84
2.7.8	Other Expenses(-)	(244,899.28)
2.7.9	Prior year's Income	384,881.41
2.7.10	Prior Year's Expense on Losses(+/-)	-
<b>2.8</b>	<b>NET PROFIT/(LOSS) FOR THE PERIOD</b>	<b>(465,007.36)</b>
2.8.1	Net Profit/(Loss) for the Period	(465,007.36)
2.8.2	Corporate Tax Provision and Other Fiscal Liabilities	-
2.8.3	Net Profit/(Loss) for the Period	(465,007.36)
2.8.4	Inflation Adjustment	-

## NOTES TO BALANCE SHEET AT 31 DECEMBER 2005

(Amounts expressed in New Turkish lira ("YTL") unless otherwise indicated)

1. **Nature of operations:** Yapı Kredi Sigorta A.Ş. ("the Company") was established on 24 December 1943. The Company's headquarters and the central office are located in Istanbul, at "Yapı Kredi Plaza A Blok Büyükdere Cad. 34330 Levent-İstanbul". The Company operates in fire, marine, accident, personal accident, engineering, agriculture and health branches. The Company's regional offices are named as "Central Anatolia", "Marmara", "South", "Aegean" and "Mediterranean".

2. **Shareholders with a nominal share of 10% or more of capital:**

NAME	31 December 2005	
	SHAREHOLDING PERCENTAGE(%)	SHAREHOLDING AMOUNT
Yapı ve Kredi Bankası A.Ş.	%53.10	42,480,000
Public shares	%33.69	26,951,880
Other	%13.21	10,568,120
<b>TOTAL</b>	<b>%100.00</b>	<b>80,000,000</b>

3. **Privileged shares and the nature of privileges granted to such shares:** None.

4. **Registered share capital:** YTL 80,000,000

5. **Capital increases and sources of capital increases during the year:** None.

6. **Marketable securities issued during the year other than share certificates:** None.

7. **Debt securities issued during the year:** None.

8. **Property and equipment movements in the current period:**

		31 December 2005
8.1	Cost of property and equipment purchased:	1,621,083
8.2	Cost of property and equipment sold or used as scrap:	1,527,677
8.3	Revaluation increases in the current period:	-
8.3.1	Cost of fixed assets (+):	-
8.3.2	Accumulated depreciation (-):	-
8.4	Nature, amount, beginning and ending dates of construction-in-progress:	336,330(*)

(\*) Related to the information technology automation project started in July 2005 and planned to be completed in July 2006.

9. **Investment allowances to be utilised in the current and following periods:** None.

## 10. Due from / due to shareholders, investments and subsidiaries:

		31 December 2005			
		Due from		Due to	
		Trade	Non - Trade	Trade	Non - Trade
1.	Shareholders	-	-	26,694	41,315
2.	Subsidiaries - Yapı Kredi Emeklilik A.Ş.	-	-	32,067	-
3.	Investments	-	-	-	-

## 11. The valuation of inventories and other balance sheet items, costing and depreciation methods applied, changes in accounting policies compared to previous periods and the effect of these policy changes, significant events or indicators that may affect the going concern and accrual concepts, and their reasons:

### 11.1 Preparation of financial statements:

Capital Markets Board ("CMB") Law, Section VII, article 50, paragraph (a), states that insurance companies are required to comply with their own specific laws in their establishment, audit, supervision, accounting and in the presentation of their financial statements. Consequently, accompanying financial statements are prepared in accordance with the Insurance Supervisory Law numbered 7397 and related regulations set out by the Treasury.

The communiqué of the of Treasury regarding the Insurance Chart of Accounts and Prospects, published in the Official Gazette (No:25686) dated 30 December 2004, (Insurance Accounting System Communiqué No.1) came into force at 1 January 2005 and effective from 1 January 2005, the Company has prepared its financial statements in accordance with the Insurance Chart of Accounts indicated in the above mentioned communiqué. In that respect, as indicated in detail in Note 11.10, marketable securities as of 31 December 2005 have been measured and classified differently than the previous year, in accordance with the Insurance Chart of Accounts.

According to the Statement of the Treasury numbered 23847 and dated 13 May 2005, since the chart of accounts has come into force in 2005, comparative disclosures and the disclosure of the cash flow statement, shareholders' equity movement schedule and profit distribution table for the year 2005 are not required for the financial statements of the year 2005. Therefore, the Company has not presented its balance sheet as of 31 December 2005, its statement of income/(loss) for the period ended 31 December 2005 and accompanying notes to financial statements, comparatively.

It was announced with the article of the Treasury numbered 19387, dated 4 April 2005 stating that insurance companies are required to restate their financial statements as of 31 December 2004 in accordance with "Financial Reporting in Hyperinflationary

Economies" included in the regulations of the Capital Markets Board ("CMB") Communiqué XI No.25 published in the Official Gazette numbered 25290 dated 15 January 2003. In line with the decree of the CMB dated 17 March 2005, the Treasury also announced that insurance companies are not required to apply inflation accounting effective from 1 January 2005. Based on the above mentioned article of the Treasury, the Company has restated its financials as of 31 December 2004 in accordance with the regulations regarding "Financial Reporting in Hyperinflationary Economies" as a one time application and has not continued to apply inflation accounting effective from 1 January 2005. The effects of the aforementioned inflation accounting application on the balance sheet as of 31 December 2004 are explained below:

	<b>Amounts reported in the financial statements at 31 December 2004</b>	<b>Amounts determined after inflation adjustment at 31 December 2004</b>
1. Financial assets	58,170,356	148,520,605
2. Tangible and intangible assets	42,725,567	33,431,708
3. Unearned premium reserve	125,561,513	129,223,815
4. Paid capital	80,000,000	239,500,781
5. Legal reserves	5,657,111	38,741,193
6. Revaluation fund	17,545,191	-
7. Accumulated profit/(loss)	7,520,327	(90,125,257)

## 11.2 The principles applied in the preparation of inflation-adjusted financial statements:

The restatement for the changes in the general purchasing power of the Turkish lira as of 31 December 2004 is based on the rules of "Financial Reporting in Hyperinflationary Economies" stated in "Accounting Standards in Capital Markets" (communiqué XI, No.25). These principles require that financial statements prepared in the currency of a hyperinflationary economy to be stated in terms of the measuring unit current at the balance sheet date, and that corresponding figures for prior periods be restated in the same terms.

The restatement was calculated by means of conversion factors derived from the Turkish nationwide wholesale price index ("WPI") published by the State Institute of Statistics ("SIS"). Such indices and conversion factors used to restate the financial statements at 31 December 2004 are given below:

<b>Dates</b>	<b>Indices</b>	<b>Conversion Factors</b>	<b>Cumulative three-year inflation rates (%)</b>	<b>Yearly inflation rate (%)</b>
1. 31 December 2004	8.403,8	1,000	69,7	13,8
2. 31 December 2003	7.382,1	1,138	181,1	13,9
3. 31 December 2002	6.478,8	1,297	227,3	30,8

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

- Monetary assets and liabilities, which are carried at amounts current at the balance sheet date, are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date.
- Non-monetary assets and liabilities, which are not carried at amounts current at the balance sheet date and components of shareholders' equity, are restated by applying the relevant conversion factors. Fixed assets purchases are restated by applying the conversion factor that belongs to the purchase date.

### **11.3 Premium income**

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

### **11.4 Commissions paid and received**

Commissions paid to intermediaries related to the underwriting of insurance policies and commissions received from reinsurers, related to premium cessions, are accounted for on an accrual basis.

### **11.5 Unearned premiums reserve**

As of 31 December 2005, the Company has calculated the unearned premiums reserve ("UPR") as the unearned portion of the premiums after the commissions are deducted, on a policy and daily basis except for marine branch. For marine policies, UPR is calculated as 50% of the last three months' premiums. The Company has also applied inflation accounting to unearned premiums reserve as of 31 December 2004 based on the article of the Treasury No:28269 dated 13 May 2005. As of 31 December 2005, the Company has not continued the inflation accounting application for the unearned premiums reserve in line with the article of the Treasury No:19387 dated 4 April 2005.

### **11.6 Claims provision**

Full provision is recorded for the estimated ultimate cost of settling claims incurred as of the balance sheet date, less amounts already paid in respect of these claims. Claim provisions are accounted for based on reports of experts or initial assessments of policyholders and experts.

Within the framework of the regulations regarding the change in the regulations on the principles of the establishment and operations of insurance and reinsurance companies issued in the Official Gazette No:25359 dated 27 January 2004, in each accounting period starting from 2004, insurance companies are required to calculate the outstanding claims adequacy ratio on a branch basis and to account for additional claims provision based on these ratios. Within this framework, when the average ratio for the past three years, excluding the current period, is less than 90%, insurance companies are required to account for additional claims provision in the amount of the difference between the adequacy ratio and 90%. The Company has recorded additional provision amounting to YTL 2,257,174 for the branches with an adequacy ratio below 90% as of 31 December 2005.

In each accounting period starting from 2004, insurance companies are required to account for provisions for claims incurred but not reported (IBNR) as of 31 December 2005. The Company based its calculation of IBNR on the past 48 months' data and accounted for an additional claims provision in the amount of YTL 10,016,551 as of 31 December 2005.

### **11.7 Earthquake reserve**

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Within the framework of the Article no 26 stated in the regulations regarding the change in the regulations of on the principles of the establishment and operations of insurance and reinsurance companies dated 6 September 2005, regarding the earthquake provision; one third of retained earthquake premiums in fire and engineering branches is deducted as commission and expense charges and 50% of the remaining amount is booked as earthquake provision for 15 years. However, the provision cannot be less than 6% of the gross earthquake premiums. The provision and the net income or expense from the investment of this provision are booked under other technical reserves. The paid claims and indemnities arising from the earthquake coverage are deducted from the earthquake provision. The Company has invested the earthquake reserve booked as of 31 December 2004 in foreign currency bank deposits, Eurobond and treasury bills in the current period; and added the gain from these investments amounting to YTL 255,384, to the earthquake reserve as of 31 December 2005.

### **11.8 Provision for insurance receivables**

In accordance with the Insurance Supervisory Law and the related decrees issued by the Treasury and published in the Official Gazette No:22153 dated 26 December 1994, effective from 1 January 1995, the Company calculates a provision for the total amount of receivables from policyholders and agencies that are overdue for two months.

In line with the Turkish Tax Code article No:323, the Company provides provision for doubtful receivables under legal follow-up which are not included in the premium receivable provision, stated above, considering the amount and nature of these receivables.

### **11.9 Claim recoveries**

As of 31 December 2005, in line with the declaration numbered B.02.1.HM.O.SGM.0.3.1.1 of the Treasury, the Company accounts for the claim recoveries from insurance companies and from individuals whom the Company has agreed on payment on accrual basis. The Company records doubtful receivables provision for the claim recovery receivables under legal follow-up.

### **11.10 Marketable securities**

In accordance with the Insurance Chart of Accounts which came in force as of 1 January 2005 with the communiqué regarding the Insurance Chart of Accounts and Prospects, published in the Official Gazette No.25686 dated 30 December 2004, the Company classifies its marketable securities in 3 different groups as available-for-sale investments, held to maturity investments and held-for-trading investments. In that respect, interest income accruals of held-to-maturity investments and value increase or decreases arising from the revaluation of held-for trading investments are recorded in the statement of income. Available-for-sale investments are valued at market value. The interest income accruals of these investments are recorded in the statement of income, and the unrealised gains or losses arising from the change in the market values are traced under shareholders' equity "Valuation of Financial Assets". As of 31 December 2004, the Company valued its marketable securities using the straight-line valuation method. When the value of the marketable securities calculated based on the straight-line method is higher than the market values, the arising difference is recorded as diminution in value of marketable securities. The effect of the aforementioned change on marketable securities as of 31 December 2005 resulted in an increase of marketable securities balance amounting to YTL 2,785,240

### **11.11 Financial assets**

The equity securities, investments and subsidiaries in the restated financial statements of the Company as of 31 December 2004 have been accounted with their restated values in line with the regulations in "Financial Reporting in Hyperinflationary Economies" stated in "Accounting Standards in Capital Markets" (Communiqué XI, No.25). The restatement has been performed over the values as the revaluation fund arising from inflation adjustment and the financial expenses including the foreign exchange differences were deducted. The Company records a provision for value decrease when the fair value of the financial asset is less than its restated value.

## 11.12 Tangible and intangible assets

The tangible and intangible assets of the Company as of 31 December 2004 are accounted at the restated values calculated by multiplying the historical costs of these items by the relevant conversion factor in line with the regulations in "Financial Reporting in Hyperinflationary Economies" stated in "Accounting Standards in Capital Markets" (Communiqué XI, No.25). Depreciation and amortisation on fixed assets have been calculated based on restated values using the straight-line depreciation method. The Company records a provision for value decrease when the fair values of the tangible or intangible assets are less than their restated values.

The useful lives for the tangible and intangible assets are as follows:

1.	Buildings	50 years
2.	Equipment	10-20 years
3.	Furniture and fixtures	3-10 years
4.	Vehicles	5 years
5.	Leasehold improvements	5 years

For assets acquired before the year 2004, the depreciation rates are 2% and 20%.

## 11.13 Provision for employment termination benefits

Under the Turkish Labour Law, the Company is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women). The amount payable consists of one month's salary limited to a maximum of YTL 1,727.15 for each year of service. The liability of the Company arising from employee termination benefits as of 31 December 2005 has been calculated as YTL 7,712,502 and a full provision for this liability has been booked in the financial statements.

## 11.14 Transactions in foreign currencies

Transactions in foreign currencies during the year are translated into New Turkish lira at the exchange rates prevailing at the dates of the transactions. Receivable balances (cash and cash equivalents, banks and marketable securities) denominated in foreign currencies are translated at bid rates declared by the Central Bank of Turkey; and payable balances denominated in foreign currencies are translated at ask rates declared by the Central Bank of Turkey. The foreign exchange valuation differences are recorded to the related exchange gains and losses accounts.

### **11.15 Tax provision**

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

Corporations are required to pay advance corporation tax quarterly at the rate of 30% on their corporate income. Advance tax is declared by the 10th and payable by the 17th of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or used to offset against other liabilities to the government.

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

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies fill their corporate tax declarations within the 15th of the fourth month following the close of the financial year which they relate to. Tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of 5 years and may issue reassessments based on their findings.

### **11.16 Related parties**

For the purpose of the accompanying financial statements, Yapı Kredi Group Companies are considered and referred to as related parties.

### **11.17 Currency**

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

All references made to Turkish lira or lira in laws, other legislation, administrative transactions, court decisions, legal transactions, negotiable instruments and other

documents that produce legal effects as well as payment and exchange instruments shall be considered to have been made to YTL at the conversion rate indicated as above. Consequently, effective from 1 January 2005, the YTL replaces the TL as a unit of account in the keeping and presenting of the books, accounts and financial statements.

**11.18 Other balance sheet items:**

Other balance sheet items are principally stated at their face values.

**12. Subsequent events to be disclosed:**

The ceiling for employee termination benefits has been increased to YTL 1,770.62 effective from 1 January 2006.

**13. Information on contingent losses and gains: (The nature of legal disputes which could affect the financial results for the period is disclosed in this section.)**

		<b>31 December 2005</b>
1.	Lawsuits against the Company	13,579,724
2.	Lawsuits in favour of the Company	14,334,607
3.	Execution proceedings by the Company	999,567

The provision for the lawsuits against the Company and for the execution proceedings are accounted for under related provision accounts in the accompanying financial statements.

**14. Changes in accounting estimates which may have a material effect on the profitability ratios and the monetary value of such effects:** None.

**15. Mortgages or collaterals on assets:**

		<b>31 December 2005</b>
1.	Marketable securities	34,589,073
2.	Real estate	25,859,084

**16. Total insurance coverage on assets:** 57,633,570

## 17. Total mortgages and collateral obtained for receivables:

	<b>31 December 2005</b>
1. Real estate mortgage	18,966,515
2. Letters of guarantee	3,994,050
3. Treasury bonds	202,455
4. Mortgage guarantee from agencies under legal follow-up	375,405
5. Guarantees obtained from companies	130,337
<b>Total</b>	<b>23,668,762</b>

The guarantees obtained for receivables and followed under off balance sheet accounts are as follows:

	<b>31 December 2005</b>
1. Credit card slips	29,013,648
2. Cheques	1,017,710
3. Notes receivables	544,985
<b>Total</b>	<b>30,576,343</b>

## 18. Commitments and contingent liabilities not recorded under liabilities:

	<b>31 December 2005</b>
1. Letters of guarantee (domestic)	1,670,878
2. Leasing payables	1,429

## 19. Guarantees to be provided and guarantees provided for life and non-life branches:

	<b>31 December 2005</b>
1. Accident	24,548,672
2. Health	20,414,490
3. Fire	8,642,101
4. Engineering	2,501,938
5. Marine	1,716,400
6. Agriculture	108
<b>Total Blockage as of 28 February 2005</b>	<b>57,823,709</b>
Value increase	2,624,448
<b>Total Blockage as of 31 December 2005</b>	<b>60,448,157</b>

## 20. Number of life policies, the number and mathematical reserve amount of the life policies that enter and exit during the year and current status: None.

**21. Insurance coverage given for non-life branches:**

		<b>31 December 2005</b>
1.	Accident	225,128,179,003
2.	Fire	25,181,551,646
3.	Engineering	7,019,806,320
4.	Marine	4,673,376,665
<b>Total</b>		<b>262,002,913,634</b>

**22. Pension investment funds founded by the Company and the prices:** None.

**23. Units and amounts of share certificates in portfolio and in circulation:** None.

**24. Number and portfolio amounts of the individual and group pension funds' participants (entered, left, cancelled during the period and the current participants):**  
None.

**25. Market value of marketable securities and financial assets carried at cost and carrying value of marketable securities and financial assets shown at market value:**

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		<b>31 December 2005</b>	
<b>Marketable securities</b>		<b>Cost</b>	<b>Book Value</b>
1.	Government bonds and treasury bills	93,379,619	99,747,784
2.	Eurobonds	5,823,838	6,334,030
3.	Investment funds	6,138	6,189
<b>Total</b>		<b>99,209,595</b>	<b>106,088,003</b>

**Financial Assets:**

The listed financial asset of the Company is stated below and is accounted per its fair value in the financial statements.

		<b>31 December 2005</b>	
<b>Financial Assets</b>		<b>Cost</b>	<b>Book Value</b>
T. Sinai Kalkinma Bankası A.Ş.		1,475,140	121,062

**26. Marketable securities under "Marketable Securities and Investment Securities" account group and issued by the Company's shareholders, investments or subsidiaries and the issuers:** None.

**27. Details of "Other" items in the balance sheet which exceed 20% of its respective account group or 5% of total assets:**

	<b>31 December 2005</b>
<b>Other receivables</b>	
Receivables from compulsory earthquake insurance policies	3,864,191
<b>Other payables</b>	
Payables to agencies	2,173,574
<b>Other payables from operations</b>	
Payables to contracted institutions	19,592,223

**28. Due from and due to personnel classified in "Other receivables" and "Other short-term or long-term payables" that exceed 1% of total assets:** None.

**29. Doubtful receivables from shareholders, investments and subsidiaries:** None.

**30. Provision for overdue doubtful receivables and receivables not due yet (the amounts to be disclosed separately):**

1.	Provision for receivables under legal follow-up:	1,226,448
2.	Provision for premium receivables:	2,217,157
3.	Provision for insurance and reinsurance receivables:	45,163
4.	Provision for claim recoveries under legal follow-up:	9,130,923

**31. Breakdown of investments and subsidiaries having an indirect shareholding and management relationship with the Company, participation rates and amounts of these investments and subsidiaries; profit/loss, net profit/loss in the latest financials, the period of these financials and the type of opinion of the independent audit report if the Company is independently audited as unqualified, qualified and adverse:**

		<b>31 December 2005</b>	
		<b>Participation Rate (%)</b>	<b>Participation Amount</b>
<b>1.</b>	<b>Subsidiaries</b>		
1.1	Yapı Kredi Emeklilik A.Ş.	99.93	148,249,982
<b>2.</b>	<b>Investments</b>	-	-
<b>3.</b>	<b>Other Financial Assets</b>		
3.1	Tarım Sigortaları Havuz İşletmesi A.Ş.	6.25	375,000
3.2	T. Sınai Kalkınma Bankası A.Ş.	less than 1	121,062
3.3	Satel A.Ş.	2.13	95,479
3.4	T. Genel Sigorta A.Ş.	less than 1	28,717
3.5	Yapı Kredi Kültür Sanat Yayıncılık Tic.A.Ş.	less than 1	10
3.6	Other	less than 1	2
<b>4.</b>	<b>Capital Commitments</b>		
4.1	Tarım Sigortaları Havuz İşletmesi A.Ş.		(281,250)
			339,020
<b>Total</b>			<b>148,589,002</b>

The Company has recorded Halk Reasürans A.Ş., one of its investments that has a restated value of YTL 3,783,520 as of 31 December 2004, at YTL 95,273 (the value set for the transfer of the Company to Bayındırlık İşleri A.Ş.) in the opening balance sheet as of 31 December 2004. The Company has sold its shares of Halk Reasürans A.Ş. at 16 September 2005 for YTL 95,273 to Bayındırlık İşleri A.Ş. with all the rights and obligations and collected its payment.

The Company has recorded Satel A.Ş., one of its investments that has a restated value of YTL 6,543,269 as of 31 December 2004, at YTL 95,479 in the opening balance sheet as of 31 December 2004, based on its historical cost based on the best estimate of the management. The investment is carried at YTL 95,479 as of 31 December 2005.

The information on the recent financials of Yapı Kredi Emeklilik A.Ş. is stated below. These financials are not in line with Capital Markets Board Regulations.

	<b>Financial statement period</b>	<b>Profit or Loss (YTL)</b>	<b>Net Period Profit or Loss (YTL)</b>	<b>Compliance with CMB</b>	<b>Independently Audited</b>	<b>Auditor's Opinion (limited)</b>	<b>Shareholders' Equity</b>
Yapı Kredi Emeklilik A.Ş.	30.06.2005	(6,570,345)	(6,570,345)	No	Yes	Unqualified	56,323,590

**32. Bonus shares obtained through internally funded capital increases of equity investments and subsidiaries:** None.

**33. Rights on immovables and their value:** None.

**34. Revaluation of property and equipment in the last three years:**

Year	Inflation Adjustment
31.12.2003	-
31.12.2004	90,350,249
31.12.2005	-

**35. Receivables and payables denominated in foreign currencies having no foreign exchange rate guarantees, assets in foreign currencies and conversion rates:**

	Type	Original Amount	Rate	Amount
<b>Cash - Banks</b>				
	USD	4,194,288	1,34180	5,627,895
	EUR	1,431,627	1,58750	2,272,708
	GBP	60,948	2,31210	140,918
	CHF	80,920	1,01880	82,441
	DKK	186,547	0,21276	39,690
	SEK	32,813	0,16783	5,507
				<b>8,169,159</b>
<b>Marketable Securities</b>				
	USD	3,079,990	1,34180	4,132,730
	EUR	1,386,646	1,58750	2,201,300
				<b>6,334,030</b>
<b>Payables</b>				
	USD	137,179	1,34830	184,958
	EUR	9,521	1,59520	15,189
	GBP	3,094	2,32420	7,191
				<b>207,338</b>

**36. Guarantees, commitments and securities given for shareholders, investments and subsidiaries:** None.

**37. Average number of employees during the period by category:**

	31 December 2005
Middle/Upper Management	41
Other Employees	830

**38. Valuation methods of share profit calculation for life insurance:** None.

**39. Purposes for the short-term or long-term loans received:** None.

**40. Other matters that may have a material effect on, or may prevent the clear understanding of, the financial statement:**

The shares amounting to 57.42% of the capital of Yapı ve Kredi Bankası A.Ş., the main shareholder of the Company, have been sold to Koçbank A.Ş. and the transaction has been recorded to the share register in accordance with the BOD decision of Yapı ve Kredi Bankası A.Ş. dated 28 September 2005.

Koçbank has applied to the CMB for a tender offer to call the shares held by other shareholders of Yapı Kredi Sigorta A.Ş. amounting to 6.79% of the shares (equivalent to YTL 10,860,617.26, total of 10,860,617,260 unit shares with face value of YTL 1,000 per share). The call of the shares, performed through Koç Yatırım Menkul Değerler A.Ş., in accordance with the relevant communiqué of the Capital Markets Board (Section IV-No:8), within the framework of the CMB decision dated 5 January 2006 and numbered 2/9, has been finalized as of 14 February 2006.

During the call period, no shareholder has participated the call.

**41. Receivables from claim recoveries followed under off-balance sheet accounts:**

YTL 1,596,195 (Net)

**42. Other notes related to financial statements presented in Appendix 4:** None.

**43. Additional paragraph for convenience translation into English:**

The financial statements are prepared and presented in accordance with the accounting principles and applications of Turkish Commercial Law and Tax Legislation and Insurance Supervisory Law, which are different from the accounting principles generally accepted in the countries in which the financial statements are to be distributed and International Financial Reporting Standards ("IFRS"). The effects of such differences have not been quantified. Accordingly, the financial statements are not intended to present the financial position, results of operations and changes in the financial position and cash flows in accordance with the accounting principles generally accepted in such countries and the IFRS.

## NOTES TO STATEMENT OF INCOME / (LOSS) FOR THE YEAR ENDED 31 DECEMBER 2005

(Amounts expressed in New Turkish lira ("YTL") unless otherwise indicated)

### 1. Depreciation and amortisation expenses for the period: 3,616,189

		31 December 2005
1.	Depreciation expenses	2,919,291
1.1	Depreciation expenses on historical cost	2,919,291
1.2	Depreciation expenses due to revaluation	-
2.	Amortisation expenses	696,898

### 2. Provision and rediscount expenses for the period: 32,249,653

		31 December 2005
1.	Rediscount expenses, net	(1,066,087)
2.	Provision for receivables under legal follow-up, net	322,633
3.	Provision for premium receivables in line with the regulations, net	594,861
4.	Provision for employment termination benefits	1,494,661
5.	Technical provisions, net	30,903,585

### 3. Total financial expenses for the period: None.

### 4. Financial expenses related to shareholders, subsidiaries and investments (any amount exceeding 20% of total will be illustrated separately): None.

### 5. Sales to/purchases from shareholders, subsidiaries and investments (any amount exceeding 20% of total will be illustrated separately):

		31 December 2005	
		Sales	Purchases
<b>1.</b>	<b>Shareholders</b>		
1.1	Yapı ve Kredi Bankası A.Ş.	4,718,018	-
1.2	Yapı Kredi Faktoring A.Ş.	97,336	
1.3	Yapı Kredi Yatırım A.Ş.	712,229	-
<b>2.</b>	<b>Subsidiaries</b>		
2.1	Yapı Kredi Emeklilik A.Ş. (*)	691,689	643,039
<b>3.</b>	<b>Investments</b>		
3.1	Yapı Kredi Kültür Sanat A.Ş.	85,335	-

(\*) The balance is related with premium production.

Gross premium income arising from the transactions with the other group companies of Yapı ve Kredi Bankası A.Ş. for the period ended 31 December 2005 is YTL 1,436,735 and YTL 2,073,404 for the group companies of Koç Holding A.Ş.

**6. Interest, rent or other charges received from or paid to shareholders, subsidiaries and investments (any amount exceeding 20% of total will be illustrated separately):**

		31 December 2005	
		Received	Paid
<b>1.</b>	<b>Shareholders</b>		
1.1	Yapı ve Kredi Bankası A.Ş.	1,222,887	1,400,268
1.2	Yapı Kredi Faktoring A.Ş.	154,722	-
<b>2.</b>	<b>Subsidiaries</b>		
2.1	Yapı Kredi Emeklilik A.Ş.	43,650	531,434
<b>3.</b>	<b>Investments</b>		

**7. Total salaries and benefits paid to the members of the Board of Directors, General Manager, General Coordinator, Assistant General Manager and other executive management: YTL 2,406,948**

**8. Changes in depreciation calculation methods and effect of such changes on depreciation expenses for the year:** As indicated in balance sheet Note 11.12, the opening balance of tangible and intangible assets have been adjusted in line with the regulations stated in the CMB Communiqué XI No:25 regarding the Financial Reporting in Hyperinflationary Economies. Depreciation expense for the period has been calculated based on the restated amounts using the straight-line method.

**9. The criteria set by the Company for the allocation performed for general administrative, research & development and marketing & selling expenses that cannot be allocated directly:** In accordance with the Insurance Chart of Accounts and Prospects, published in the Official Gazette dated 30 December 2004, insurance companies are required to record some of their general expenses under technical accounts. In line with this regulation, some of the expenses are directly allocated to the relevant technical accounts and the rest are allocated to the technical accounts according to the distribution of premiums and number of policies between branches.

**10. Income and expenses related to prior periods and the amounts and sources of expenses and losses:** The income related to the prior year amounting to YTL 384,881 is related with the reversal of the provision for Insurance Supervisory Board fee recorded in 2004.

**11. Profit and dividend per common and preferred shares:** None.

**12. Number of units and individual/group allocation of gross/net contribution fees of the private pension fund participants entering the Company during the period:** None.

13. **Number of units and individual /group allocation of gross/net contribution fees of the private pension fund participants transferred from another company during the period:** None.
14. **Number of units and individual /group allocation of gross/net contribution fees of the private pension fund participants transferred from the life insurance portfolio to the private pension funds portfolio during the period:** None.
15. **Number of units and individual /group allocation of gross/net contribution fees of the private pension fund participants that left the Company and transferred to another company or that left the Company but did not transfer to another company:** None.
16. **Number of units, gross/net premiums and individual /group allocation of life policyholders that joined the Company during the period:** None
17. **Number of units, gross/net premiums and individual /group allocation of mathematical reserves for life policyholders that left the Company during the period:** None.
18. **Profit share allocation rate provided to the life policyholders:** None.
19. **Other notes related with the financial statements presented in Appendix-4:** None.



## INFORMATION FOR SHAREHOLDERS

## STOCK EXCHANGE

Yapı Kredi Sigorta's shares are traded on the Istanbul Stock Exchange (ISE) in the national market under the symbol YKSGR. Information about the Company's shares is published on the economics pages of daily newspapers and on the internet portals of brokerage houses.

## INVESTOR RELATIONS

Copies of Yapı Kredi Sigorta's annual reports and other information about the Company may be obtained from the following address as well as from the corporate website located at [www.yksigorta.com.tr](http://www.yksigorta.com.tr).

### Yapı Kredi Sigorta

Investor Relations ( İ.Tankut Eren - M.Teoman Çelen)  
Yapı Kredi Plaza A Blok, Büyükdere Caddesi  
Levent, 34330 İstanbul , Turkey

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## GENERAL ASSEMBLY OF SHAREHOLDERS

Yapı Kredi Sigorta's General Assembly of Shareholders will be held on Monday 20 March 2006 at 14:00 at the address of Yapı Kredi Plaza A Blok, Büyükdere Caddesi Levent, 34330 İstanbul TURKEY.

## INDEPENDENT AUDITOR

Başaran Nas Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi  
(PriceWaterhouse Coopers)  
Tel: (90 212) 326 60 60 - Fax: (90 212) 326 60 50

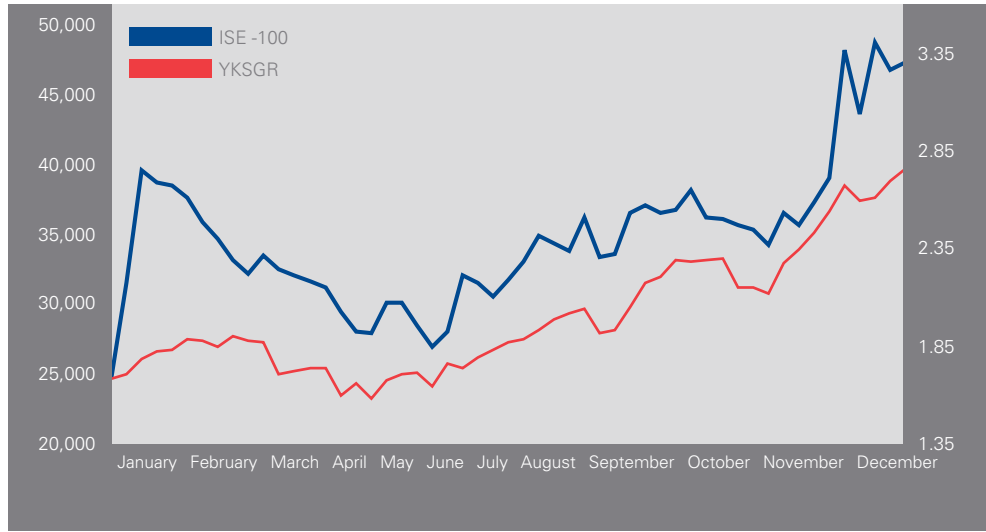
## TAX CERTIFICATION

Kuzey Yeminli Mali Müşavirlik Anonim Şirketi  
An Affiliated Firm of Ernst & Young International  
A. Feridun Güngör - İstanbul TURKEY  
Tel: (90 212) 315 30 00 - Fax: (90 212) 234 10 67

## YAPI KREDİ SİGORTA SHARE PERFORMANCE IN 2005

According to its year-end balance sheet, Yapı Kredi Sigorta's capital amounts to YTL 80 million, which is divided into 160 billion shares.

### YKSGR Share performance in 2005



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The lowest price per share during the year was YTL 1.71 and the highest was YTL 3.68. The average trading price for the whole year was YTL 2.43. Share price quarterly lows and highs are presented below.

YTL	Low	High
01.01.2005 - 31.03.2005	1.71	2.97
01.04.2005 - 30.06.2005	1.77	2.35
01.07.2005 - 30.09.2005	2.10	2.84
01.10.2005 - 31.12.2005	2.31	3.68



# MANAGEMENT

## GROUP MANAGERS

**Aykut Çelebi** Non-Health Underwriting, Agency Support and Customer Services, Bakırköy and Kadıköy Representative Offices.

**Dilek İzbudak** Medical Services, Health Claims

**Mehmet Uğur Kavuşturan** Health Sales

**Necmettin Yılmaz** Non-Health Claims

**Nurettin Güleli** Legal Affairs

**Selim Fenercioğlu** (Consultant) Reinsurance

**Süha Özcan** Premium Collection

**Yıldırım Türe** Regional Offices

## DEPARTMENT MANAGERS

**Alper Araman** Bank Sales

**Alper Tan** Special Risks

**Barış Vardar** Engineering Insurance Assistant Manager

**Bülent Eren** Health Claims

**Cemal Gönül** Auto Claims

**Cengiz Cantekin** Agencies

**Cengiz Özsevim** Health Agencies Support

**Dilek Serimoğlu** Training

**Dilfuruz Sevindik** Accident-Auto Insurance Assistant Manager

**Emel Bek** Treasury

**Feray Çelebi** Legal Affairs Assistant Manager

**Hüseyin Akay** IT-Skills Centre

**İbrahim Özkılıç** IT-System and Network

**Kadir Burnaz** Fire Insurance

**Kenan Akter** Premium Collection

**Korkut Çırak** System Research & Development Assistant Manager

**Mehmet Tümer** Bank Sales

**Melike Demirel** Non-Auto Claims

**Musa Bahar** Accident-Non Auto Insurance Assistant Manager

**Mustafa Gökalp** Internal Audit

**Müge Sarıbayraktar** Corporate Health Sales

**Nagehan Gözübüyük** Call Centre Assistant Manager

**Neslihan Kahraman** Medical Services Assistant Manager

**Serap Ağca** Marine Insurance Assistant Manager

**Teoman Çelen** Financial Affairs

**Tevfik Ekmen** Health Underwriting

**Tolga Tezbaşaran** Marketing, Advertising and Public Relations

**Tuncay Arıcı** Administrative Affairs

**Yüksel Tırpan** Risk Engineering, Agency Support and Customer Services

## REGIONAL OFFICE MANAGERS

**Adnan Sığın** Southern Regional Office

**Göksenin Işık** Marmara-1 Regional Office

**Hüseyin Ören** Mediterranean Regional Office

**Korkut Güner** Central Anatolia Regional Office

**Tuncer Biton** Aegean Regional Office

**Aslıhan Öğüt** Headquarters and Marmara-1 Regional Office Health Sales

**Ejder Akbaba** Central Anatolia and Southern Regional Office Health Sales

**Murat Beköz** Aegean and Mediterranean Regional Office Health Sales

**Servet Sevindik** Kadıköy Representative Office Assistant Manager

**Vedat Şahin** Bakırköy Representative Office Assistant Manager

## OFFICES

### Headquarters

Yapı Kredi Plaza A Blok Büyükdere Cad.  
Levent, 34330 İstanbul Turkey  
Tel: (90 212) 336 06 06 Fax: (90 212) 336 08 08  
E-mail: yksigorta@yksigorta.com.tr

### Mediterranean Regional Office

Sinan Mah. Recep Peker Cad. Antalya 2000 İş  
Merkezi No: 22 Kat: 4, 07100 Antalya Turkey  
Tel: (90 242) 311 41 21 Fax: (90 242) 321 55 81

### Aegean Regional Office

Halit Ziya Bulvarı No: 74 Alsancak,  
35210 İzmir Turkey  
Tel: (90 232) 498 64 64 Fax: (90 232) 466 21 74

### Southern Regional Office

Ziya Paşa Bulvarı No: 74, 01130 Adana Turkey  
Tel: (90 322) 457 95 95 Fax: (90 322) 453 13 52

### Central Anatolia Regional Office

Mithatpaşa Cad. No: 43/E Kızılay,  
06420 Ankara Turkey  
Tel: (90 312) 458 60 60 Fax: (90 312) 458 60 00

### Marmara-1 Regional Office

Atatürk Cad. No: 25 Kat: 4, 16010 Bursa Turkey  
Tel: (90 224) 220 54 41 Fax: (90 224) 222 59 14

### Bakırköy Representative Office

G. Ali Rıza Gürcan Cad. Metropol Center No: 31  
K: 8 Büro No: 33 Merter, 34150 İstanbul Turkey  
Tel: (90 212) 481 01 03 Fax: (90 212) 481 05 04

### Kadıköy Representative Office

Şemsettin Günaltay Cad. No: 213  
Erenköy, 34738 İstanbul Turkey  
Tel: (90 216) 363 36 96 Fax: (90 216) 363 53 77



[www.yksigorta.com.tr](http://www.yksigorta.com.tr)