

TURKISH CATASTROPHE INSURANCE POOL

2006
ANNUAL REPORT

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TURKISH CATASTROPHE INSURANCE POOL

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Our objectives,
as Turkish Catastrophe Insurance Pool,
are as follows:

To play a significant part
in the growth of TCIP,
a very significant social
responsibility project for
our country and also to contribute
to the premium production
under the Compulsory
Earthquake Insurance scheme.

✓ To provide the environment
in which agencies and companies
are able to work in a sound,
speedy and easy manner so as
to create the synergy
throughout the Sector.

✓ To increase the number of policies
and insurability rates within
the scope of the TCIP system.

✓ To provide the public and insureds
with information and make them
conscious about the insurance.



Message from the Chairman

Our corporate was established as a public entity with a view to taking out policies under the Compulsory Earthquake Insurance scheme as per the Decree Law no. 587 on Compulsory Earthquake Insurance Scheme enacted by virtue of the Empowering Act no. 4452 concerning the Arrangements, dated August 27 1999, concerning Measures to be Taken against Acts of God and Settlement of Losses occurring due to such Acts of God.

The Turkish Catastrophe Insurance Pool was structured without the organization and staff as per the foregoing Decree Law. The Pool's technical affairs are handled by the Manager of the Pool pursuant to the same legislations.

Our Pool is considered to be a model among applications in the world thanks to such a structure. Countries which are also under earthquake risks are therefore interested very closely and our Pool is regarded as successful in this respect.

Our Pool was managed by Milli Reasürans T.A.S. as the "Manager of the Pool" for a period of 5 years on August 8, 2000 following the foundation of our Pool. Garanti Sigorta A.Ş. commenced its duties as the Manager of the Pool on August 8, 2005 after the expiration of the said period.

Our Pool ended the year 2006 successfully.

Contributions and works provided through intensive efforts of the directors of our Pool as well as the Manager of Our Pool, and particularly the Turkish Undersecretariat of Treasury were a big contribution in such an achievement.

I would like to extend my appreciation to those who contributed to such an achievement and I believe from the bottom of my hearth that more and more achievements will follow in the future.

Yours Faithfully...

İdris SERDAR

Turkish Catastrophe Insurance Pool
Chairman





Message from the General Manager of Garanti Sigorta A.Ş., Manger of the Pool

When compared to the previous years, the number of acts of god which occurred during 2006 and casualties caused by such disasters were found to be lower, which is a pleasing development. Similarly, there also occurred less big earthquakes which caused losses of lives all around the world. The lower frequency of acts of god positively affected the insurance sectors all around the world and the amount of the insured losses fell below the figures of the previous years. In spite of such a positive development in 2006, all acts of god, especially earthquakes,

have continued to be one of the most significant matter on which the insurance sector focuses due to changes in climates, industrialization and growing populations.

TCIP, founded to compensate losses which may be caused by earthquakes, which is the most important natural disaster risk in our country, reached at an amount of 2.6 Million policies at the end of the year 2006. We, Manager of the Pool, aim at increasing the number of policies at full speed and providing insurance protection for many more citizens against earthquake perils. Every homeowner should have policies under the Compulsory Earthquake Insurance scheme, which should be perceived as a duty of social responsibilities and it is very important to be aware that it can be achieved by cooperation of all insurance companies, insurance brokers, public institutions and local administrations.

It should always be noted that the real success of TCIP is hidden in services that it will render after a big earthquake. Our technological infrastructure is permanently developed to the extent of such awareness so as to enable TCIP to provide effective and prompt services after an earthquake which our country may suffer at any time, and reinsurance coverages are procured and fund managements are fulfilled while human resources are planned and professional business aids are created.

I am very much grateful to insurance companies, insurance brokers and loss adjusters for their cooperation they have shown in the policy production and also for services they have rendered for our insureds on one hand, and also to the Republic of Turkey, Prime Ministry, Turkish Undersecretariat of Treasury, and President and Members of the Board of TCIP for their support they have given for the improvement of the level of services of TCIP on the other hand.

Yours Faithfully,

H. Okan UTKUERİ

Manager of the Pool
Garanti Sigorta A.Ş.
General Manager



Metin SERİN

Faruk ÖZÇELİK

H. Okan UTKUERİ

İdris SERDAR

M.Semih YÜCEMEN

Ali Ender ÇOLAK

Erhan TUNÇAY

PRESIDENT AND MEMBERS OF THE BOARD OF THE TURKISH CATASTROPHE INSURANCE POOL

NAME	DUTY	COMPANY AND TITLE
İdris SERDAR	President	Deputy Director General, General Directorate of Insurance, Turkish Undersecretariat of Treasury
Metin SERİN	Member	Acting Deputy Director General, Ministry of Public Works and Settlement, General Directorate of Disaster Affairs
Faruk ÖZÇELİK	Member	Deputy General Directorate, General Directorate of Personnel and Principles
Erhan TUNÇAY (as of September 1, 2006)	Member	General Secretary, Association of the Insurance and Reinsurance Companies of Turkey
Ali Ender ÇOLAK	Member	Vice President of the Board, Capital Markets Board
Professor M.Semih YÜCEMEN	Member	Member of the University, Department of Civil Engineering, Middle East Technical University
H.Okan UTKUERİ (as of September 1, 2006)	Member	General Manager, Garanti Sigorta A.Ş.

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1 PREAMBLE AND GENERAL INFORMATION

Losses caused by acts of god which have recently been sustained all round the world result in losses of properties and lives as centres of population get more crowded and population increases get higher. It is stated that the extent of acts of god such as hurricanes, tropical storms, typhoons, cyclones, ice storms, thunderstorms and floods will gradually get intensified, which is mostly because of the global warmth. Changes in climates occurring due to the global warmth have a negative impact on all countries. Consequences resulting from global changes in climates cause catastrophic losses, and damages so occurred are of a significant extent.

Causes such as the global warmth, unplanned settlement in our country, inadequate infrastructure and the like, lead to acts of god whose number and intensity gets higher day by day. While consequences of the global warmth and studies performed for enhancing the environmental consciousness still carry on, our country should never forget the earthquake fact and maintain the highest level of pre-earthquake preparations.

It was seen after disasters that no effective results could be obtained from studies for creation of the financial resources against the negative impacts of the economy by making up for losses of properties and lives. Studies are therefore focused on the integrated natural disaster management systems prior to occurrences of such natural disasters all around the world. Studies performed for the preparation of emergency plans, creation of the financial resources and mitigation of the extent of disasters are the most important elements among the natural disaster management systems. Based on the purpose of compensating earthquake losses by which housings may be damaged, the Turkish Catastrophe Insurance Pool was founded upon such emergence of this solution understanding by the Ministry with which the Undersecretariat of the Treasury is affiliated, as per the Decree Law no. 587 on Compulsory Earthquake Insurance Scheme enacted by virtue of the Empowering Act no. 4452 concerning the Arrangements, dated August 27 1999, concerning Measures to be Taken against Acts of God and Settlement of Losses occurring due to such Acts of God, and promulgated in the Official Gazette numbered 23919 (bis) and dated December 27, 1999, and validated thereupon.

The Compulsory Earthquake Insurance scheme introduced by the Turkish Catastrophe Insurance Pool is an insurance system created for dwellings falling within the borders of the municipalities. This system created without utilizing any public resources promptly exhibited a successful performance and was taken as a model for similar practices by many other countries.

The Compulsory Earthquake Insurance scheme is a very important application for our country which suffers from various magnitudes of earthquakes, which application aims at meeting property damages caused by earthquakes by means of insurances and also by risk sharing (co-insurance).

The application of this Compulsory Earthquake Insurance scheme provides a concrete assurance which compensates material damages which homeowners sustain during earthquakes immediately without the state's budgetary facilities. At the same time, the requirements of a social solidarity are met in the best way by less paid insurance premiums, and the risk sharing and solidarity is made throughout the country and savings are generated and some substantial part of the earthquake risk is placed in the overseas markets through reinsurance.

In line of its purpose of establishment, TCIP made substantial amounts of indemnities to insureds who suffered from earthquakes which occurred on various dates. The total amount of indemnities paid by TCIP to 8,936 insured homeowners for damages sustained due to 150 earthquake occurrences which have occurred at magnitudes ranging from 3.6 to 6.5 so far since September 27, 2000 when such application was initiated is TRY 17,663,000.

It was observed that there was an increase in the number of policies after advertisement and promotional facilities made in 2006, and the number of policies was increased to 2,555,000 at a rate of 5.7% as at the end of the year. However approximately 20% of the total home stocks in our country hold insurance policies.

It is of a great importance that all sections of our community will adopt and give support for the Compulsory Earthquake Insurance which was brought to its current status as a result of great efforts and without any public resources, and which is essential for our country, and 96% of whose lands bear earthquake risks of various levels.

The target is to provide earthquake coverage for all homeowners falling within this scope by such Compulsory Earthquake Insurance scheme. There is a need of various audit and support mechanisms as the insurance conscience is not at desired levels in our country to this end. The article 12 captioned "Determination and follow-up of the insurance liabilities" under the Decree Law no. 587 reads in the section of the Determination and Follow-up of the Insurance Liabilities that "Those who are liable to take out insurances are determined by the Pool. The Pool makes use of records of the relevant governor offices, municipalities and real estate registration offices during such procedures. Public institutions cannot make any transactions including title registry procedures related to constructions subject to insurance unless a Compulsory Earthquake Insurance policy is arranged and payment of premiums thereof is documented." If the Compulsory Earthquake Insurance is adopted by the public, insurance sector, intermediaries, non-governmental organizations, trade bodies, educational institutions, then it would be the most effective action to remedy such losses after a devastating earthquake within the possible shortest time.

The insurance sector plays an important role in the application of TCIP and Compulsory Earthquake Insurance which is considered to be a model project by the world countries. 25 authorized insurance companies and agencies of such insurance companies currently arrange Compulsory Earthquake Insurance policies on behalf and in the name of TCIP.

Insurance Companies Authorized to Arrange Policies under Compulsory Earthquake Insurance scheme;

- 1 AIG SİGORTA A.Ş.
- 2 AK SİGORTA A.Ş.
- 3 ANADOLU ANONİM TÜRK SİGORTA ŞTİ.
- 4 ANKARA ANONİM TÜRK SİGORTA ŞTİ.
- 5 AVIVA SİGORTA A.Ş.
- 6 AXA OYAK SİGORTA A.Ş.
- 7 BAŞAK SİGORTA A.Ş.
- 8 BİRLİK SİGORTA A.Ş.

- 9 FİNANS SİGORTA A.Ş.
- 10 GARANTİ SİGORTA A.Ş.
- 11 GENERALİ SİGORTA A.Ş.
- 12 GÜNEŞ SİGORTA A.Ş.
- 13 GÜVEN SİGORTA T.A.Ş.
- 14 HDI SİGORTA A.Ş.
- 15 HÜR SİGORTA A.Ş.
- 16 IŞIK SİGORTA A.Ş.
- 17 İSVİÇRE SİGORTA A.Ş.
- 18 KOÇ ALLIANZ SİGORTA A.Ş.
- 19 RAY SİGORTA A.Ş.
- 20 ŞEKER SİGORTA A.Ş.
- 21 T.GENEL SİGORTA A.Ş.
- 22 TEB SİGORTA A.Ş.
- 23 TİCARET SİGORTA A.Ş.
- 24 TOPRAK SİGORTA A.Ş.
- 25 YAPI KREDİ SİGORTA A.Ş.

Data pertaining to the Policies under the Compulsory Earthquake Insurance scheme as of December 31, 2006 are as follows:

Number of Policies in Force	: 2,554,709 policies
Current total coverage	: 109 billion TRY
Premium production 2006	: 206 million TRY
Average coverage per home	: 43 thousand TRY
Average premium per home	: 81 TRY

Below are some findings, evaluations and developments about the period from January 1, 2006 to December 31, 2006, which constitutes the subject of the Annual Report.

1.1 Board's Activities

The article 6 of the Decree Law no. 587 concerning the Compulsory Earthquake Insurance Scheme indicates that TCIP can be managed by the TCIP's board consisting of seven members presided over a president. It is stipulated as per the article 7 of the same Law that the Board shall comprise of 7 board members presided over by the President as follows:

- ✓ Prime Ministry,
- ✓ Turkish Undersecretariat of Treasury,
- ✓ Ministry of Public Works and Settlement,
- ✓ Capital Markets Board,

- ✓ Association of the Insurance and Reinsurance Companies of Turkey,
- ✓ Representative of the Manager of the Pool,
- ✓ One respective member who graduated from departments of civil engineering, geology engineering or other similar departments and is experienced for minimum seven years, and who is to be appointed by the Undersecretariat,

Such formation of the Board is considerably important especially for the representation of all relevant parties and also for the successful management of the Compulsory Earthquake Insurance scheme. The Board of the Turkish Catastrophe Insurance convened for 7 times in total during the year 2006. Some of the most important issues discussed and resolved during such meetings are as below:

- Because of hesitations as to whether our Pool was subject to the Public Procurement Act or not until July 17, 2006;
 - ✓ Loans were granted for the necessary reinsurance premium payments by the World Bank.
 - ✓ Printing works of General Conditions and policies of 2006 was handled by the State Supply Office.
 - ✓ Two tenders were made via the State Supply Office to meet needs of hardware and infrastructural changes.
- In its meeting convened on February 23, 2006, the Board of the Turkish Catastrophe Insurance Pool resolved that a campaign be held with a view to inducing authorized insurance companies and agencies thereof to generate premiums under the Compulsory Earthquake Insurance scheme and rewarding the same in consideration of positive consequences to be obtained therefrom. With this campaign held in accordance with Article 7 of the Tariff and Instructions of the Compulsory Earthquake Insurance scheme, the aim was to increase the number of policies, premium production and insurability rates under the Compulsory Earthquake Insurance scheme in 2006. Depending on the pre-requisite that the total number of policies arranged during the relevant period would be increased by minimum 5%, it was resolved that the campaign which envisaged payment of incentive commissions to companies for the achievement such companies would show in the premium production and also in the increase of such premium production as well as the number of policies be performed for the year 2006, and activities related to the said matter be rendered by the Manager of the Pool.
- It was found appropriate as per Article 4 of the Resolution, numbered 2006/55 and dated April 11, 2006, of the Board that provisions regarding the liquidation of the balance of liabilities/receivables of the authorization agreement concluded between TCIP and insurance companies be revised according to the day's requirements and the resolution numbered 2004/35 and dated February 17, 2004 be rearranged.
- It was decided as per Article 6 of the Board's resolution numbered 2006/56 and dated June 10, 2006 that, when considering that commitments of the Pool were denominated in TRY, the sub-paragraph 3 of the Fund Investment Principles annexed to Article 5 of the Board's resolution numbered 2005/47, be changed as "All portfolios other than our foreign currency liabilities with a maturity of 1 year should be evaluated in TRY (upon authorization for $\pm 10\%$)".

- As per the Board's resolution numbered 2006/58 and dated August 5, 2006;
 - ✓ It was decided as per Article 1 that the software services be provided by Garanti Technology A.Ş. in accordance with the letter, numbered 21538 and dated April 24, 2006, served by the Undersecretariat of the Treasury about the analysis of requirements as to the renewal of the software of the TCIP's system, and also views delivered by the Undersecretariat of the Treasury, General Directorate of the Economic Research.
 - ✓ It was decided as per Article 10 that Emergency Action Plan facilities be commenced.
- As per the Board's resolution numbered 2006/59 and dated October 7, 2006;
 - ✓ It was determined under Article 5.5 to apply 3% for the interest rate to be used in the annual interest payments made for the pecuniary guarantees taken from insurance companies. It was further decided that the existing fixed guarantees for the following period be returned to the insurance companies and no further new guarantees be accepted. Such guarantees were returned to insurance companies on October 16, 2006 following delivery of the opinions on the part of the Turkish Undersecretariat of Treasury.
 - ✓ It was decided as per Article 7 that TV program held on CNN TURK channel for the promotion of TCIP and Compulsory Earthquake Insurance scheme during the previous years be carried on as from the following broadcast period that it was seen that such a TV program took much attention of the public and provided considerable benefits for informational purposes.
- It was established upon the Board's resolution numbered 2006/60 and dated November 2, 2006, that treasury bills and government bonds retained in the portfolio of the Turkish Catastrophe Insurance Pool be better reserved under the account opened on behalf of the Turkish Catastrophe Insurance Pool at Takasbank (Clearing Bank), and the Manager of the Pool was empowered to execute the necessary operations and transactions to this end.
- Upon the Board's resolution numbered 2006/61 and dated November 17, 2006, the earthquake problem became the agenda of our country because of earthquakes that hit on October 20-21, 2006 in our country, because of earthquake exercises made in Istanbul from November 7-9, 2006 and also intensive discussions in the media. A consensus was achieved on the fact that promotional facilities that could be useful during this period be immediately commenced so as to maintain the acceleration so obtained.
- It was found appropriate upon Article 8 of the Board's resolution numbered 2006/62 and dated December 5, 2006 that, for the purpose of follow-up of the policies on the part of our Pool, banks would be furnished with information about details of policies about themselves without informing about the name of the insurance company arranging such insurance policies under which they are loss payees.

1.2 Issues Pertaining to Legislations and Practices

1.2.1 The Policy Production figures under the Compulsory EQ Insurance scheme are now indicated in the Chart of Accounts of the Insurance Companies.

An arrangement was made within the scope of the Chart of Insurance Accounts with a view to monitoring the premium production under the Compulsory Earthquake Insurance scheme as a result of activities performed by the Turkish Undersecretariat of Treasury.

The Turkish Undersecretariat of Treasury notified, upon its letter numbered 11566, served upon the Association of Insurance and Reinsurance Companies of Turkey on March 8, 2006, about the regulations which enabled insurance companies to show their premium production under the Compulsory Earthquake Insurance scheme in their own books.

These regulations which have been long since been awaited are of great importance as such regulations do have a contributing factor in activities performed by insurance companies with a view to increasing the premium production under the Compulsory Earthquake Insurance scheme.

1.2.2 Changes in Tariff Rates

Some amendments were made on the Compulsory Earthquake Insurance Tariff by "Tariffs and Instructions of the Compulsory Earthquake Insurance Scheme" promulgated in the Official Gazette numbered 26072 and dated February 6, 2006.

New regulations were also introduced about intermediary commissions upon new tariffs and instructions presenting the minimum premium applications. The rates per each square meter as well as maximum coverage sums were rearranged as of February 8, 2006 and are as follows;

➤ Maximum coverage sums: TRY 100,000

➤ Rates per square meter:

A- Steel, Reinforce Concrete Constructions : 410 TRY

B- Constructions Built of Piled Stones : 290 TRY

C- Other Constructions : 155 TRY

- Payable premiums are calculated by addition of TRY 10 into an amount obtained by application of the above sum on the insured sum determined according to the earthquake zone and construction type. However the minimum amount of the payable premium is determined as TRY 25 irrespective of its earthquake zone and construction type.
- Insurance companies authorized to make contracts under the Compulsory Earthquake Insurance scheme on behalf and in the name of the Turkish Catastrophe Insurance Pool are paid commissions at a rate of 12.5% and 17.5% respectively over the sums of the Compulsory Earthquake Insurance premiums produced by insurance companies and their agencies for risks located within/outside of borders of Istanbul.
- However the minimum commission payable to the authorized insurance company for each insurance contract is TRY 8 and insurance companies and agencies shall be entitled to TRY 3 and TRY 5 out of such minimum paid commissions respectively.

1.2.3 Changes in Regulations

The "Regulations concerning Amendments on the Regulations on Working Principles and Procedures of the Board of Directors of the Turkish Catastrophe Insurance Pool drawn up by the Ministry with which the Undersecretariat of the Treasury is affiliated" was promulgated in the Official Gazette numbered 26361 and dated November 29, 2006.

1.3 Activities of Garanti Sigorta - Manager of the Pool - During 2006

Garanti Sigorta A.Ş. was conferred with the duty for the Management of the Turkish Catastrophe Insurance Pool for a period of 5 years on August 8, 2005 under a contract concluded by the Turkish Undersecretariat of Treasury pursuant to Article 6 of the Decree Law no. 587. As the Manager of the Pool in 2006;

1.3.1 Fund Management

The funds of the Turkish Catastrophe Insurance Pool were guided into investments initially in consideration of the liquidity and capital securities as well as rates of returns within the framework of the "Regulations on Working Principles and Procedures of the Board of Directors of the Turkish Catastrophe Insurance Pool".

1.3.2 Reinsurance Protection

Liabilities arising out of policies of the Pool are regularly monitored and reinsurance protection limits are provided in view of the earthquake loss models constituted by the international institutions. In this connection, the TCIP's reinsurance protection was renewed in accordance with the features of the existing portfolio as of November 1, 2006 and placed through various reinsurers under the leadership of companies such as Swiss Re – Switzerland, Munich Re. – Germany, Axa re. – France, Amlin – England etc. for the period from November 1, 2006 to October 31, 2007, and an excess of loss reinsurance protection consisting of five (5) layers was procured at an amount of 920 Million Euros this way.

1.3.3 Hardware and Network Structure

It was decided that software requirements (maintenance of new projects) related to the operating and network services of the Turkish Catastrophe Insurance Pool be procured by the State Supply Office (SSO). The necessary preparations were forthwith executed as per this decision of the Board and specifications and technical criteria of facilities needed for the system infrastructure were determined accordingly. Purchases were made in accordance with the technical specifications in the bid opened by SSO.

1.3.4 DASK System's New Software

It was decided that a new software be developed with a view to meeting emerging needs of the Turkish Catastrophe Insurance Pool, removing problems and correcting errors, providing a faster access and developing the software architecture.

Upon the application of the new software;

- ✓ A parametrical infrastructure will be created.
- ✓ The customer database will be based on T.R. ID numbers.
- ✓ An authorization infrastructure will be created.
- ✓ The features to monitor and operate policy renewals efficiently will be enhanced thanks to the policy renewal applications.

- ✓ As for loss procedures, an infrastructure will be created for defining, monitoring and reporting losses on the earthquake basis and there will be an integration process with bank systems to ensure that loss payments can be made through more than one bank. A complete loss module will be created in accordance with the logic of the insurance.
- ✓ An infrastructure will be installed in accordance with the Land Registry and Cadastral Information System (TAKBIS).

1.3.5 New Webpage

The aim is to provide more information and services to insureds, all individuals, insurance companies and agencies through its renewed website. A data pool was created by bringing questions directed towards the Pool through all communication sources of the Insureds including answers. It enabled users to simultaneously monitor earthquakes and data of the Kandilli Observatory and Earthquake Research Institute on the Turkey's map.

Activities are also being made for English webpage.

The screenshot displays the DASK website interface. At the top, there is a navigation menu with links for 'Ana Sayfa', 'DASK Hakkında', 'Zorunlu Deprem Sigortası', 'Mevzuat', 'Hasar', 'Yayımlar', and 'İletişim'. A prominent banner features a building and the text '17 Ağustos Depreminin 7.yılı... Unutmayalım... Unutturmayalım...'. Below this, a section titled 'SON DEPREMLER' lists recent earthquakes with their magnitudes and locations: Richter 3.5'ten büyük, 4.8 İZMİR, 3.8 ÇANAKKALE, 3.9 ÇAGLAYI, and 3.8 KUSADASI. A 'DASK Bilgi Merkezi' sidebar offers services like 'Zorunlu Deprem Sigortası Bilinmesi Gerekenler', 'Etkileşimli Deprem Haritası', and various insurance-related queries. The main content area features a 'Deprem Risk Haritası' (Earthquake Risk Map) of Turkey, color-coded by risk level. Below the map, a table provides earthquake data for Istanbul, including the number of lives lost, total damage, and insurance coverage. The table is as follows:

İstanbul	
Yaşayan Poliçe	798.781
Toplam Konut	2.714.461
Sigortalık Oranı	%29

Below the table, a list of districts and their corresponding earthquake counts is provided:

İstanbul			
Merkez	1 Adalar	1 Avcılar	1 Büyükçekmece
Bağcılar	2 Bahçelievler	2 Bakırköy	1 Bayrampaşa
Beşiktaş	2 Beykoz	2 Beyoğlu	2 Çatalca
Eminönü	2 Esenler	2 Etiler	3 Fatih
Gasımangözü	2 Güngören	2 Küçükçekmece	1 Kadıköy
Kağıthane	2 Kartal	1 Maltepe	1 Pendik
Sarıyer	3 Silivri	2 Sultanbeyli	1 Şile
Şişli	2 Tuzla	1 Ümraniye	2 Üsküdar
Zeytinburnu	1		

1.3.6 Advertisement and Promotional Facilities

The Turkish Catastrophe Insurance Pool was taken out of the scope of the Public Procurement Act until December 31, 2010 as of July 1, 2006. Advertisement and promotional facilities were commenced as it was taken out of the scope of the Public Procurement Act. Activities for selection of the Advertising, PR and Media Agencies were commenced as of the end of the year.

- The TCIP is discussed in a TV program "Bakış" (Glance) at the channel CNN Türk every Saturday. The program which will continue for 40 weeks takes 40 minutes.
- Print works of Turkish-English brochures, posters, and similar promotional articles and distribution of the same to the insurance companies were already completed.
- The "earthquake" matter was kept up-to-date after earthquakes hit our Country on October 20, 21 2006 and it was therefore decided that promotional activities which could be effective during this term be immediately commenced. Within the scope of promotional activities to be made to incite people to have policies under the Compulsory Earthquake Insurance scheme were advertisements in the newspapers such as Hürriyet, Sabah, Posta, Zaman and Milliyet with the highest circulation rates throughout Turkey.

1.3.7 Disaster Emergency Action Plan

An Emergency Action Plan was needed by the Turkish Catastrophe Insurance Pool to be able to fulfil duties expected of it in a planned and systematic manner without any delay or failure following a probable earthquake. When an earthquake occurs, the Turkish Catastrophe Insurance Pool should receive loss notifications, appoint adequate loss adjusters, fix amounts of indemnities payable in accordance with reports drawn up by such loss adjusters and pay such indemnities within the possible shortest time. The aim is to perform such operations in a timely and systematic manner without causing any chaos and panic. It is stipulated upon such a plan to make cooperation and coordination with all the relevant corporations and institutions within the scope of a system.

Following studies performed within this scope, a team consisting of the staff of Garanti Insurance, Manager of the Pool, under the leadership of Professor Mikdat Kadioğlu and his team from the Istanbul Technical University (ITU), started its facilities to create a Disaster Emergency Action Plan.

The Disaster Emergency Action Plan which was initially concocted was organized according to the capacity which can meet all managerial and operational operations that may be needed through the resources of Garanti Sigorta, Manager of the Pool. The plan involves emergency aid and intervention services and facilities, as well as principles of cooperation, coordination and mutual assistance, prior to, during and following the disaster on the part of the Turkish Catastrophe Insurance Pool and units and institutions with which it is affiliated.

The Disaster Emergency Action Plan is handled as a project needed to be developed constantly as the Manager of the Pool. The aim is to enable the Turkish Catastrophe Insurance Pool to render uninterrupted services, finalize loss adjustment facilities in a timely manner, and make indemnity payments within the possible shortest time upon cooperative facilities to be made by technology companies and other corporations as a result of the prompt provision of cash flows even in the worst earthquake scenario.

1.3.8 Assessment of Losses and Indemnity Payments

As known, loss adjustment operations are fulfilled by independent loss adjusters appointed on behalf of the Turkish Catastrophe Insurance Pool. Payments of indemnities fixed after such loss adjustments are effected directly by the Turkish Catastrophe Insurance Pool.

Indemnity Payments as per Earthquakes:

- A total amount of TRY 17,662,952 was paid for 8,936 loss files opened after a total of 150 earthquake occurrences as from September 27, 2000 when this application was initiated.
- An amount of TRY 1,219,000 was paid for 463 files opened after 20 earthquake occurrence in 2006.

97% of the Paid Losses belongs to partial losses

As for indemnity payments made so far, indemnities were fully paid on the basis of policies at a rate of 3% in respect of a total of 8,936 loss claims. 97% of the indemnity payments are expenses incurred for repair, which did not cause any destruction in dwellings due to the small and medium-scale earthquakes.

Loss Payments as per Earthquakes:

LOSS PAYMENTS BY YEARS (December 31, 2006)			
YEAR	NUMBER OF EARTHQUAKES	NUMBER OF FILES	PAYMENT (TRY)
2000	1	6	23.022
2001	17	338	127.497
2002	21	1.558	2.284.835
2003	20	2.504	5.203.990
2004	31	587	768.692
2005	40	3.480	8.036.086
2006	20	463	1.218.830
TOTAL	150	8.936	17.662.952

1.3.9 New Tariff Criteria

Researches and statistical studies were performed with a view to adopting minimum premiums and fixed premiums as a criterion in the tariff rates of the Compulsory Earthquake Insurance scheme.

1.3.10 Campaign for Incentives for the Insurance Companies

A campaign consisting of three periods from January 1, 2006 to December 31, 2006 was held so as to incite the premium production of the insurance companies and agencies. Depending on the pre-requisite that the total number of policies integrated into the system during the relevant period would be increased by minimum 5%, the campaign which envisaged payment of incentive commissions to companies for the achievement such companies showed in the premium production and also in the increase of such premium production as well as the number of policies be performed for the year 2006 be rendered during the specified terms in 2006 by the Manager of the Pool.

Terms;

- **March - April - May - June 2006**

An increase of 6.2% was realized at the General TCIP pool. Depending thereupon, 12 companies entitled to receive commissions were given commissions amounting to a total of TRY 376,035.

- **July - August - September 2006**

An increase of 0.2% was realized at the General TCIP pool. No commissions were allocated as there was no increase of 5% which was the company criteria.

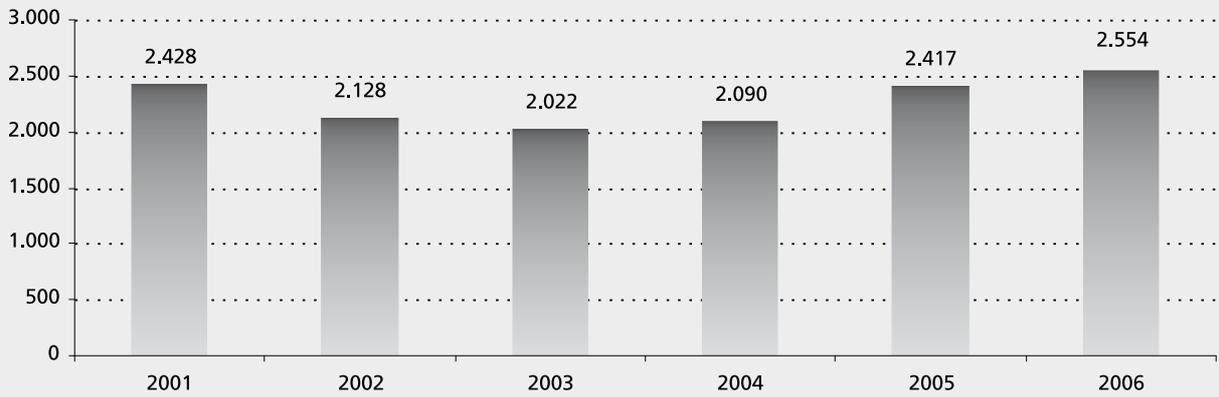
- **October - November - December 2006**

An increase of 1.8% was realized at the General TCIP pool. No commissions were allocated as there was no increase of 5% which was the company criteria.

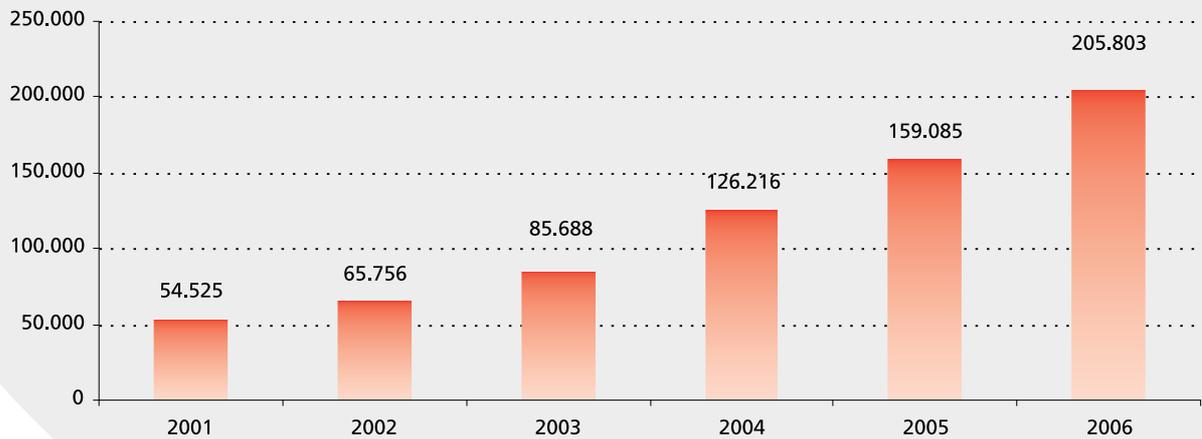
2 STATISTICS

2.1 Policy Production Figures by Years

Number of Compulsory Earthquake Insurance Policies by Years (000 Policies)



Premiums of Compulsory Earthquake Insurance Policies by Years (000 TRY)



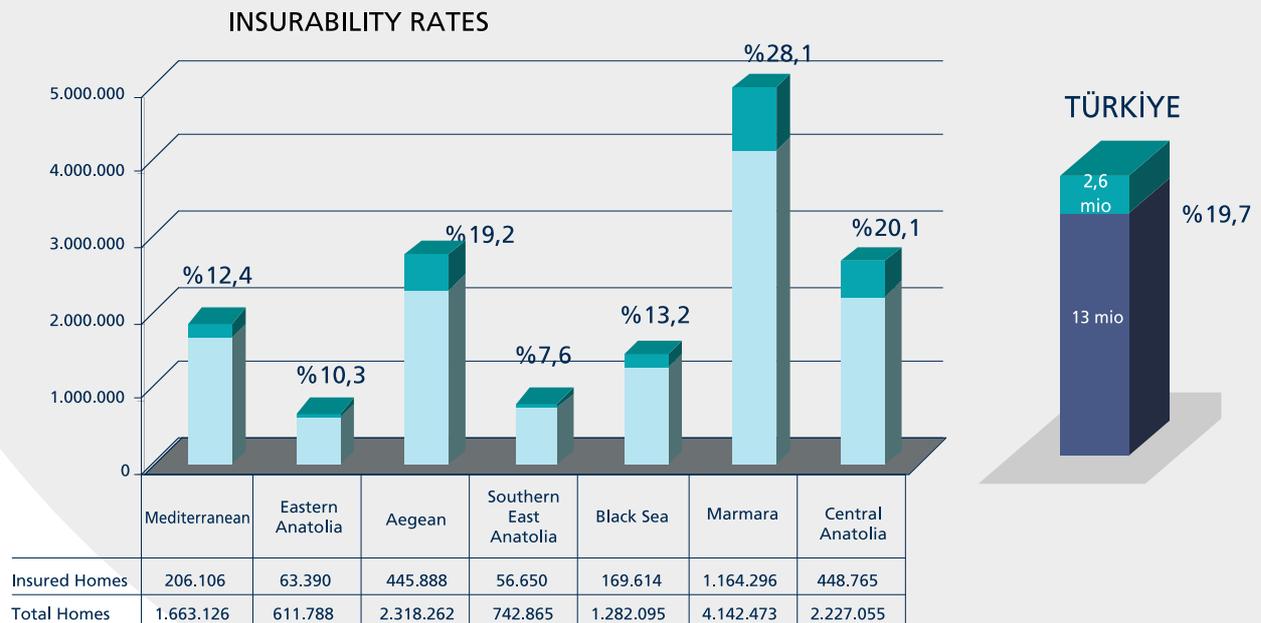
2.2 Policy Production Figures by Companies

CEI POLICY PRODUCTION REPORT (AS OF DECEMBER 31, 2006)					
PRODUCTION BY COMPANIES	2005		2006		% Percentage of Policies
	Number of Policies	% Increase of Policies	% Percentage of Policies	Number of Policies	
ANADOLU ANONİM TÜRK SİGORTA A.Ş.	364.669	15,1	357.557	14,0	-2,0
AXA OYAK SİGORTA A.Ş.	320.457	13,3	335.792	13,1	4,8
BAŞAK SİGORTA A.Ş.	230.530	9,5	244.849	9,5	6,2
GÜNEŞ SİGORTA A.Ş.	249.209	10,3	240.601	9,4	-3,5
AK SİGORTA A.Ş.	177.428	7,3	206.335	8,0	16,3
KOÇ ALLIANZ SİGORTA A.Ş.	158.685	6,6	163.014	6,4	2,7
İSVİÇRE SİGORTA A.Ş.	157.512	6,5	153.636	6,0	2,5
YAPI KREDİ SİGORTA A.Ş.	127.431	5,3	131.312	5,1	3,0
RAY SİGORTA A.Ş.	113.764	4,7	115.524	4,5	1,5
FINANS SİGORTA A.Ş.	50.723	2,1	73.862	2,9	45,6
GÜVEN SİGORTA A.Ş.	71.682	3,0	67.302	2,6	-6,1
GARANTİ SİGORTA A.Ş.	36.990	1,5	63.370	2,5	71,3
BİRLİK SİGORTA A.Ş.	39.819	1,6	59.782	2,3	50,1
ANKARA SİGORTA A.Ş.	60.207	2,5	55.642	2,2	-7,6
TÜRKİYE GENEL SİGORTA A.Ş.	48.787	2,0	50.067	2,0	2,6
IŞIK SİGORTA A.Ş.	32.740	1,4	44.485	1,7	35,9
İHLAS SİGORTA A.Ş.	42.865	1,8	43.780	1,7	2,1
AVİVA SİGORTA A.Ş.	32.475	1,3	43.435	1,7	33,7
GENERALİ SİGORTA A.Ş.	37.565	1,6	34.329	1,3	-8,6
ŞEKER SİGORTA A.Ş.	18.387	0,8	22.932	0,9	24,7
HÜR SİGORTA A.Ş.	17.852	0,7	22.830	0,9	27,9
TEB SİGORTA A.Ş.	15.708	0,6	18.977	0,7	20,8
AİG SİGORTA A.Ş.	3.022	0,1	3.131	0,1	3,6
TOPRAK SİGORTA A.Ş.	3.132	0,1	2.168	0,0	-30,8
TİCARET SİGORTA A.Ş.	5.573	0,2	-3	0,0	-100,1
BATI SİGORTA A.Ş.	-38	0,0	0	0,0	-100,0
TOTAL	2.417.176	100,0	2.554.709	100,0	5,7

2.3 Policy Production Figures by Months

MONTHS	2004 POLICIES	2005 POLICIES	2006 POLICIES	2004 PREMIUM TRY	2005 PREMIUM TRY	2006 PREMIUM TRY	2006 % OF INCREASE OF POLICIES	2006 % OF PREMIUMS
JANUARY	107.440	126.265	149.754	6.761.746	8.678.305	10.235.568	18,6	17,9
FEBRUARY	130.827	159.188	198.316	7.937.834	10.498.332	15.359.995	24,6	46,3
MARCH	347.131	339.528	364.880	20.536.239	22.183.945	29.712.519	7,5	33,9
APRIL	280.240	277.506	278.979	16.593.228	18.055.382	22.607.761	0,5	25,2
MAY	214.147	224.788	244.520	12.632.829	14.379.309	19.593.672	8,8	36,3
JUNE	152.498	181.239	198.006	9.024.286	11.765.896	15.887.672	9,3	35,0
JULY	140.775	162.931	168.570	8.557.032	10.653.674	13.467.270	3,5	26,4
AUGUST	146.578	178.901	173.494	9.035.964	11.544.714	14.140.632	-3,0	22,5
SEPTEMBER	145.926	180.253	180.973	8.952.565	11.839.991	14.831.011	0,4	25,3
OCTOBER	127.444	196.466	173.904	7.960.051	13.624.598	14.780.734	-11,5	8,5
NOVEMBER	112.740	154.815	199.458	7.055.293	10.345.106	16.591.631	28,8	60,4
DECEMBER	183.822	235.296	223.855	11.168.706	15.515.898	18.592.392	-4,9	19,83
TOTAL	2.089.568	2.417.176	2.554.709	126.215.773	159.085.150	205.800.858	5,7	29,4

2.4 Penetration Rates by Regions



2.5 Penetration Rates by Provinces

(1/1)

REGIONS AND PROVINCES	TOTAL NUMBER OF HOMES	INSURED HOMES	PENETRATION RATES%	COVERAGE (TRY)	PREMIUM (TRY)
EGE	2.318.262	445.888	19,23	18.132.725.975	44.358.756
MUĞLA	155.696	55.514	35,66	2.101.775.525	5.250.856
İZMİR	912.585	186.259	20,41	7.931.663.580	19.389.880
BALIKESİR	272.600	63.693	23,37	2.341.700.820	5.877.101
DENİZLİ	187.334	32.880	17,55	1.582.682.415	3.844.330
AYDIN	219.408	44.372	20,22	1.708.599.020	4.263.517
UŞAK	66.125	7.151	10,81	312.805.665	583.895
MANİSA	243.854	27.377	11,23	1.065.052.380	2.708.585
AFYON KARAHİSAR	137.210	17.515	12,77	645.595.950	1.503.613
KÜTAHYA	123.450	11.127	9,01	442.850.620	936.706
AKDENİZ	1.663.126	206.106	12,39	9.253.378.280	15.356.360
ANTALYA	365.097	69.357	19,00	3.023.430.080	4.891.521
MERSİN	352.147	47.742	13,56	2.253.872.250	2.178.786
ADANA	375.351	41.322	11,01	2.049.657.725	3.505.889
BURDUR	52.018	6.292	12,10	238.749.575	641.360
ISPARTA	97.938	10.588	10,81	394.373.665	1.058.833
HATAY	218.635	19.097	8,73	804.921.630	1.963.779
OSMANİYE	68.586	4.904	7,15	204.158.275	479.106
KAHRAMANMARAŞ	133.354	6.804	5,10	284.215.080	637.088
DOĞU ANADOLU	611.788	63.390	10,36	2.782.686.235	5.883.488
ERZİNCAN	41.437	10.007	24,15	391.486.375	1.055.631
TUNCELİ	10.344	1.389	13,43	59.731.495	113.149
ERZURUM	94.248	13.070	13,87	620.345.405	1.093.044
KARS	23.646	2.132	9,02	80.081.625	153.674
ELAZIĞ	87.783	10.362	11,80	499.811.395	912.666
ARDAHAN	6.463	737	11,40	29.953.640	53.066
MALATYA	123.573	11.301	9,15	527.735.295	1.294.635
VAN	64.081	4.625	7,22	195.898.320	360.370
AĞRI	32.921	1.955	5,94	59.682.680	126.367
İĞDIR	16.553	995	6,01	47.281.155	84.435

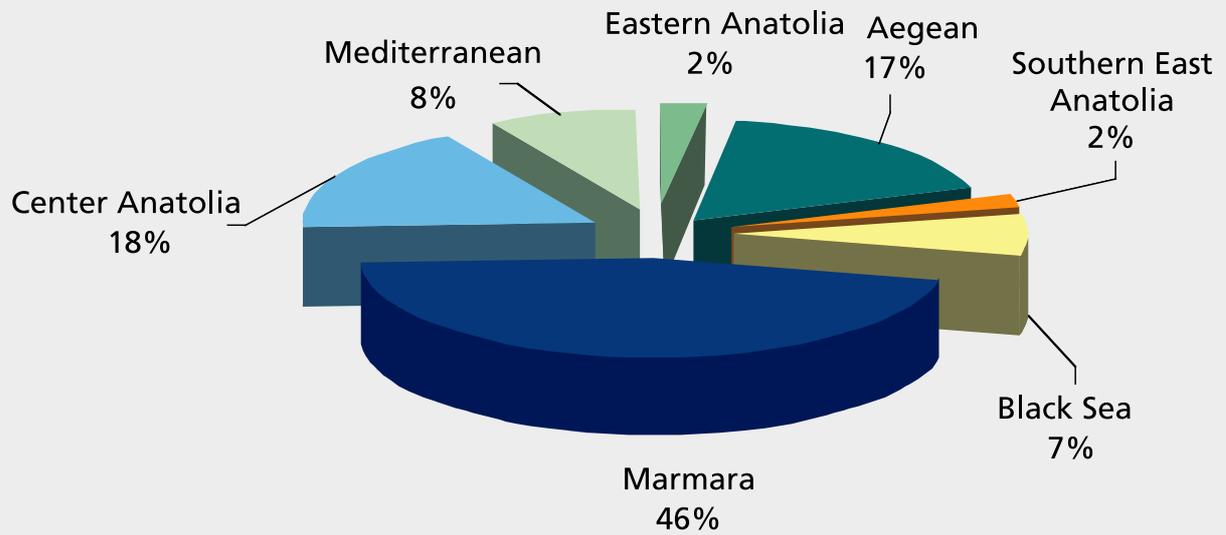
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REGIONS AND PROVINCES	TOTAL NUMBER OF HOMES	INSURED HOMES	PENETRATION RATES%	COVERAGE (TRY)	PREMIUM (TRY)
BİTLİS	28.919	1.990	6,88	74.071.305	159.817
MUŞ	28.815	1.236	4,29	42.487.590	105.239
BİNGÖL	22.458	3.203	14,26	135.281.670	336.300
ŞIRNAK	30.547	388	1,27	18.838.285	35.093
GÜNEYDOĞU ANADOLU	742.865	56.650	7,63	2.524.068.095	3.642.001
GAZİANTEP	223.694	20.211	9,04	997.386.740	1.059.275
DİYARBAKIR	160.281	12.518	7,81	581.158.935	1.055.772
ŞANLIURFA	126.916	8.619	6,79	350.951.615	407.193
ADIYAMAN	60.552	5.055	8,35	211.937.470	408.330
KİLİS	16.318	1.227	7,52	47.874.265	57.230
MARDİN	70.134	2.404	3,43	92.343.355	112.368
SİİRT	24.195	1.932	7,99	56.001.400	148.089
HAKKARİ	16.314	1.245	7,63	47.468.660	142.037
BATMAN	44.462	3.439	7,73	138.945.655	251.706
MARMARA	4.143.473	1.164.296	28,10	50.592.618.400	105.152.052
YALOVA	64.227	26.026	40,52	1.002.994.615	2.455.789
İSTANBUL	2.714.462	806.928	29,73	35.543.241.580	73.192.800
TEKİRDAĞ	178.113	59.622	33,47	2.585.837.985	3.683.323
KIRKLARELİ	66.520	14.611	21,96	627.191.615	486.486
EDİRNE	75.983	19.394	25,52	795.072.755	855.892
KOCAELİ	281.663	76.609	27,20	3.252.891.810	7.885.234
SAKARYA	125.109	38.742	30,97	1.625.989.430	4.049.534
ÇANAKKALE	90.302	20.683	22,90	803.165.975	2.035.701
BURSA	512.158	96.155	18,77	4.131.008.245	10.024.239
BİLECİK	34.937	5.526	15,82	225.224.390	483.053
İÇ ANADOLU	2.227.055	448.765	20,15	19.163.400.140	18.675.355
ANKARA	902.900	278.301	30,82	12.262.141.645	9.578.097
ESKİŞEHİR	166.174	40.797	24,55	1.552.811.140	2.934.001
ÇANKIRI	34.893	3.887	11,14	135.909.110	347.052
KAYSERİ	218.896	33.575	15,34	1.485.248.970	1.539.358

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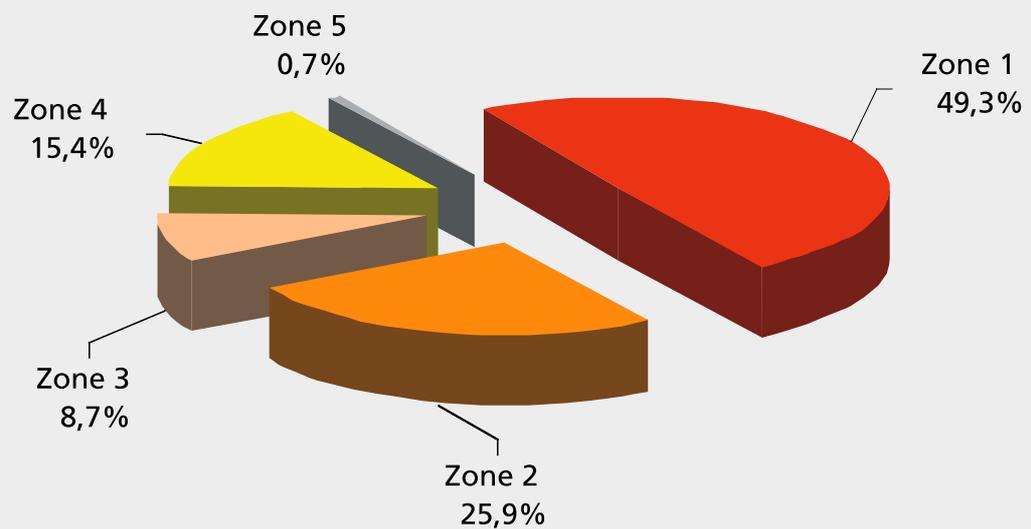
REGIONS AND PROVINCES	TOTAL NUMBER OF HOMES	INSURED HOMES	PENETRATION RATES%	COVERAGE (TRY)	PREMIUM (TRY)
KIRŞEHİR	44.458	5.738	12,91	197.475.305	511.175
SİVAS	93.719	10.405	11,10	391.888.250	491.352
NEVŞEHİR	60.670	6.945	11,45	225.579.680	282.346
KARAMAN	44.706	4.312	9,65	210.125.025	135.561
KONYA	375.915	40.502	10,77	1.716.560.045	1.710.006
AKSARAY	65.232	6.605	10,13	274.071.305	197.910
NİĞDE	63.806	6.382	10,00	271.619.380	211.484
YOZGAT	89.145	7.079	7,94	275.576.815	340.644
KIRIKKALE	66.542	4.237	6,37	164.393.470	396.369
KARADENİZ	1.282.095	169.614	13,23	7.042.840.230	12.732.866
BOLU	38.918	17.312	44,48	750.634.990	1.831.967
DÜZCE	29.758	10.817	36,35	441.935.375	1.094.120
AMASYA	60.760	9.000	14,81	345.592.670	893.443
SİNOP	32.290	4.981	15,43	193.874.380	208.681
KASTAMONU	55.919	8.530	15,25	356.896.155	785.753
ÇORUM	91.638	15.876	17,32	654.753.855	1.252.305
ZONGULDAK	114.260	12.931	11,32	550.577.705	1.050.331
SAMSUN	204.034	21.878	10,72	899.786.250	1.503.228
BARTIN	23.942	2.878	12,02	104.545.505	268.958
KARABÜK	45.380	5.382	11,86	217.544.420	542.444
TRABZON	156.089	17.333	11,10	761.423.555	587.690
ORDU	130.823	9.738	7,44	443.110.735	505.116
ARTVİN	24.152	2.767	11,46	113.228.355	104.880
GİRESUN	76.527	6.309	8,24	257.233.800	238.825
TOKAT	106.952	15.780	14,75	603.504.475	1.529.243
RİZE	60.778	5.777	9,51	251.378.860	192.711
GÜMÜŞHANE	20.782	1.636	7,87	69.673.720	111.691
BAYBURT	9.095	689	7,58	27.145.425	31.481
TURKEY - OVERALL	12.988.663	2.554.709	19,67	109.491.717.355	205.800.858

2.6 Breakdown of Policies into Regions



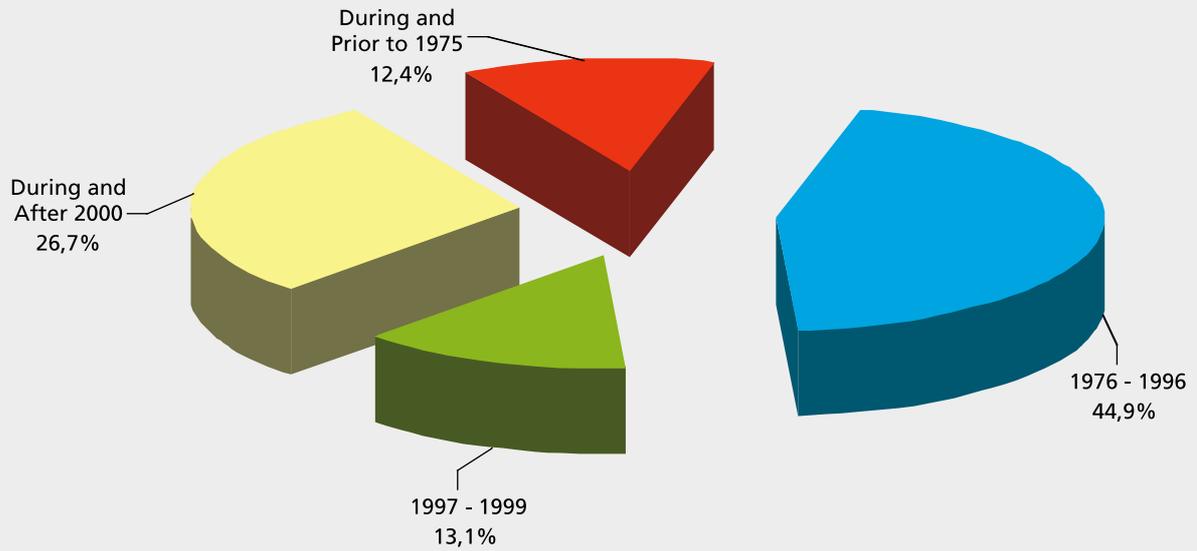
PRODUCTION BY REGIONS	Number of Policies	Percentage (%)	Premium	Percentage (%)
Mediterranean	206.106	8,1	15.356.360	7,5
Eastern Anatolia	63.390	2,5	5.883.488	2,9
Aegean	445.888	17,5	44.358.756	21,6
Southern East Anatolia	56.650	2,2	3.642.001	1,8
Black Sea	169.614	6,6	12.732.866	6,2
Marmara	1.164.296	45,6	105.152.052	51,1
Central Anatolia	448.765	17,6	18.675.355	9,1
TOTAL	2.554.709	100,0	205.800.858	100,0

2.7 Breakdown of Policies into Regions



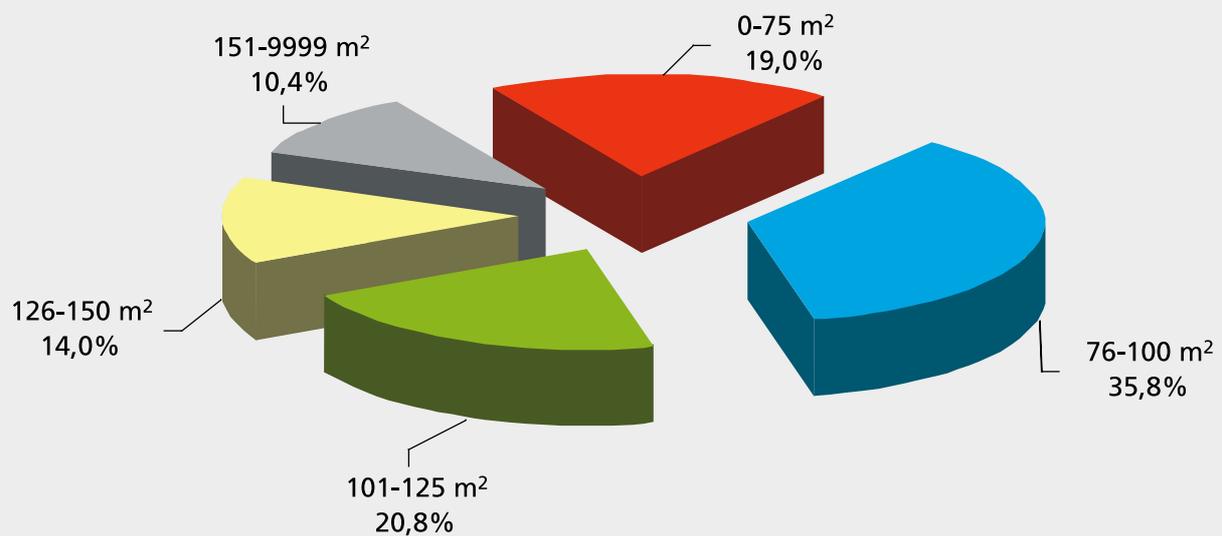
PRODUCTION BY RISK REGIONS	Number of Policies	Percentage (%)	Premium	Percentage (%)
Zone 1	1.255.756	49,2	129.850.086	63,1
Zone 2	664.120	26	51.452.400	25
Zone 3	222.854	8,7	10.774.951	5,2
Zone 4	392.711	15,4	13.178.364	6,4
Zone 5	19.268	0,8	545.078	0,3
TOTAL	2.554.709	100,0	205.800.858	100,0

2.8 Breakdown of Policies into Construction Years



PRODUCTION BY CONSTRUCTION YEARS	Number of Policies	Percentage (%)	Premium	Percentage (%)
During and Prior to 1975	318.154	12,5	22.842.513	11,1
From 1976 to 1996	1.154.577	45,2	94.883.065	46,1
From 1997 to 1999	337.778	13,2	28.840.053	14
During and After 2000	744.200	29,1	59.235.247	28,8
TOTAL	2.554.709	100,0	205.800.858	100,0

2.9 Breakdown of Policies into Building Areas



PRODUCTION BY AREAS OF BUILDINGS	Number of Policies	Percentage (%)	Premium	Percentage (%)
Below 75 m²	483.837	18,9	23.348.844	11,3
76 - 100 m²	532.110	20,8	45.820.259	22,3
101 - 125 m²	356.399	14	35.807.511	17,4
126 - 150 m²	265.943	10,4	36.071.187	17,5
Above 151 m²	916.420	35,9	64.753.077	31,5
TOTAL	2.554.709	100,0	205.800.858	100,0

3 AUDIT REPORT



INDEPENDENT AUDIT REPORT

To the Board of the Turkish Catastrophe
Insurance Pool

Başaran Nas Bağımsız Denetim
ve Şerbest Muhasebeci Mali
Müşavirlik A.Ş.
a member of
PricewaterhouseCoopers
BJK Plaza, Süleyman Seba Caddesi
No: 48 B Blok Kat: 9 Akaretler
Beşiktaş 34357 İstanbul - Turkey
www.pwc.com.tr
Telephone : +90 (212) 326 6060
Facsimile : +90 (212) 326 6050

1. We have audited the balance sheet of the Turkish Catastrophe Insurance Pool ("TCIP" or "Pool") as of the end of December 31, 2006, income statement of the year ending as of the foregoing date, statement of changes in net assets, and cash flow statement, summary of the significant accounting policies and other footnotes. The Pool's financial statements of December 31, 2005 were audited by another auditing company and the independent audit report of May 26, 2006 included positive views.

Liabilities of the Pool Management regarding the Financial Statements

2. The Pool Management is liable for preparing the financial statements in accordance with the International Financial Reporting Standards, and also proper submission thereof. Such a liability comprises of preparation, application, and maintenance of financial statements in a manner not to include any significant errors arising out of false or fraudulent acts, and realization of reasonable accounting estimations under existing conditions, and selection and performance of the appropriate accounting policies.

Liabilities of the Independent Auditing Company

3. Our liability is to deliver our opinions about financial statements on which we perform our independent audit. Our independent audit has been fulfilled in compliance with the International Audit Standards. Such standards require compliance of ethic principles, and performance of the independent audits within the scope of the plan to ensure that no significant errors exist in the financial statements. The audit involves use of auditing techniques with a view to collecting evidences pertaining to sums and remarks in the financial statements. The selection of the auditing techniques is made according to the views of the auditor in a manner to include the risk assessment as to whether financial statements include significant arrangements or not and also whether they arise from false or fraudulent acts or not. In assessment of risks, the internal control system related to the preparation and proper submission of the financial statements of the enterprise is taken into consideration; however the aim is to develop the auditing techniques required under the existing conditions, not to deliver opinions about the efficiency of the internal control system. The audit also involves the assessment of the overall type of submission of financial statements in addition of the conformity of the accounting policies applied by the management of the enterprise and reasonableness of accounting estimations so made.

We believe that evidences we have obtained regarding the audit constitute a sufficient and appropriate ground to create our views.

4. In our opinion, the accompanying financial statements reflect all important aspects of the financial status of the Turkish Catastrophe Insurance Pool prevailing on December 31, 2006, and also its financial performance of the year ending on the foregoing date including cash flows, in accordance with the International Financial Reporting Standards.

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



Talar Gül, SMMM
Responsible Partner, Chief Auditor

İstanbul, May 21 2007

3.1 Financial Statements

3.1.1 Balance Sheets

DETAILED BALANCE SHEETS AS OF DECEMBER 31, 2006 AND DECEMBER 31, 2005

(Sums are denominated in New Turkish Liras ("TRY") unless otherwise stated.)

	Note	2006	Re-arranged 2005
ASSETS			
Liquid Assets	5	407,249,105	208,899,391
Available-for-sale financial assets	6	92,059,764	101,611,612
Premium receivables	7	15,522,849	13,553,492
Other current assets	8	53,207,096	-
Net tangible fixed assets	9	1,322,832	1,789,449
Total assets		569,361,646	325,853,944
LIABILITIES AND NET ASSETS			
Short-term instalments of long-term borrowings	10	10,089,390	8,635,708
Other short-term liabilities	11	60,191,474	12,880,071
Unearned premium reserves	12	84,043,843	66,967,311
Reserves for Outstanding Losses and Damages	12	291,511	693,235
Long-term borrowings	10	81,089,346	42,124,996
Other long-term liabilities	13	70,280	2,150,905
Total liabilities		235,775,844	133,452,226
Current value fund		(614,550)	926,844
Accumulated fund reserves		334,200,352	191,474,874
Total net assets		333,585,802	192,401,718
Total liabilities and net assets		569,361,646	325,853,944

The following notes constitute an integral part of financial statements.

3.1.2 Income Statement

INCOME STATEMENTS OF YEARS ENDING ON DECEMBER 31, 2006 AND 2005

(Sums are denominated in New Turkish Liras ("TRY") unless otherwise stated.)

	Note	2006	Re-arranged 2005
Income			
Net Premium Income	14	188,739,408	148,994,327
Total income		188,739,408	148,994,327
Expenditures			
Reinsurance expenditures		(61,901,849)	(49,912,986)
Commission expenditures	16	(36,896,768)	(29,783,512)
Net claims	15	(3,425,782)	(5,695,067)
		(102,224,399)	(85,391,565)
Net insurance income and claims		86,515,009	63,602,762
Financial income	18	84,102,832	41,135,880
Financial expenditures	19	(24,447,460)	(6,780,871)
Administrative Expenses	17	(2,954,500)	(4,950,759)
Other expenditures	20	(490,403)	(644,278)
Increase of fund reserves before monetary loss		142,725,478	92,362,734
Monetary loss		-	(6,861,813)
Increase in fund reserves		142,725,478	85,500,921

The following notes constitute an integral part of financial statements.

3.1.3 Statement of Changes in Net Assets

STATEMENTS OF CHANGES IN NET ASSETS AS OF DECEMBER 31, 2006 AND 2005

(Sums are denominated in New Turkish Liras ("TRY") unless otherwise stated.)

	Accumulated current value fund	Fund reserves	Total
January 1, 2005	4,380,910	105,973,953	110,354,863
Current value fund	(3,454,066)	-	(3,454,066)
Increase in fund reserves	-	100,537,508	100,537,508
December 31, 2005	926,844	206,511,461	207,438,305
Records of the previous year (Note (iii))	-	(15,036,587)	(15,036,587)
December 31, 2005 re-arranged	926,844	191,474,874	192,401,718
Current value reserve	(1,541,394)	-	(1,541,394)
Increase in fund reserves	-	142,725,478	142,725,478
December 31, 2006	(614,550)	334,200,352	333,585,802

The following notes constitute an integral part of financial statements.

3.1.4 Cash Flow Statements

STATEMENTS OF CASH FLOWS AS OF DECEMBER 31, 2006 AND 2005

(Sums are denominated in New Turkish Liras ("TRY") unless otherwise stated.)

	Not	2006	Re-arranged 2005
Cash flows from operating activities			
Increase in fund reserves		142,725,478	85,500,921
Adjustments:			
Depreciation and depletion allowances	9	1,264,639	1,212,523
Increase in Receivables		(1,969,357)	(3,702,427)
(Increase)/decrease in other current assets		(53,207,096)	2,607,733
Decrease in long-term liabilities		(2,080,625)	(238,568)
Increase in technical reserves		16,674,805	12,477,296
Increase in other short-term liabilities		47,311,406	5,100,440
Cash flows from operating activities		150,719,250	102,957,918
Cash flows from investment activities			
Increase in available-for-sale financial assets		8,010,454	24,099,739
Purchases of tangible fixed assets	9	(798,022)	(22,428)
Cash flows from investment activities		7,212,432	24,077,311
Cash flows from financing activities			
Increase / (Decrease) in borrowings		40,418,032	(3,956,362)
Cash flows from financing activities		40,418,032	(3,956,362)
Net change in liquid assets		198,349,714	123,078,867
Liquid Assets as at the beginning of the period	5	208,899,391	85,820,524
Liquid Assets as at the end of the period	5	407,249,105	208,899,391

The following notes constitute an integral part of financial statements.

3.1.5 Explanatory Notes about Financial Statements

EXPLANATORY FOOTNOTES PERTAINING TO THE FINANCIAL STATEMENTS PREPARED AS OF DECEMBER 31, 2006

3.1.5.1 NOTE 1 – Organization and Scope of Activities of the Pool

The Turkish Catastrophe Insurance Pool (“TCIP”) or (“Pool”) was established as a legal entity affiliated with the Ministry with a view to effecting insurances under the Decree Law no. 587 promulgated in the Official Gazette dated December 27, 1999 as resolved by the Ministry, and to fulfil other duties delegated pursuant to such a Decree Law. The basic operation of the Pool to take out insurance policies under the Compulsory Earthquake Insurance scheme in order to meet property damages that may be sustained by homeowners or owners of rights of usufruct because of losses or damages of buildings due to an earthquake event that may occur. The Pool is directed by the “Board of Directors of the Turkish Catastrophe Insurance Pool”, comprising of seven members appointed by the Undersecretariat of the Treasury, Ministry of Public Works and Settlement, Association of the Insurance and Reinsurance Companies of Turkey, Middle East Technical University, Capital Markets Board and Manager of the Pool.

The Pool started selling policies on September 27 2000.

The performance of the Pool’s activities was taken over to Garanti Sigorta A.Ş. in the capacity of the “Manager of the Pool” for a period of 5 years as of August 8, 2005 by the Undersecretariat of the Treasury. The transfer contract was entered into for a period of five years, which can be renewed in the same manner. The Manager of the Pool provides services for the performance of daily operations including IT operations, claims procedures, as well as operations of reinsurance, marketing and fund management.

The Pool and revenues thereof are exempt from any and all taxes, duties and fees. The Pool is not subject to Public Accounting Law 1050, Law 3346 concerning the Arrangement on the Supervision of the Public Economic Organizations and Funds by the Turkish Assembly, and Law on the Turkish Court of Accounts no. 832, and Public Tender Law no. 2886 and Travel Expense Law no. 6245.

The insurance Premium receivables of the Pool are collected in accordance with the provisions of the Law no. 6183 concerning the Collection of Public Receivables.

The annual accounts, transactions and expenditures of the pool are audited by the Turkish Undersecretariat of Treasury.

3.1.5.2 NOTE 2 – Principles about the Submission of the Financial Statements

(i) Financial Statements denominated in New Turkish Lira

These financial statements were drawn up in compliance with the International Financial Reporting Standards (“IFRS”) which also contain remarks released by the International Accounting Standards (“IAS”) and also International Accounting Standards Board (“IASB”). The Pool arranges accounting books and statutory financial statements in accordance with the Decree Law no. 587 to which it is liable. Such financial statements are drawn up in the light of necessary adjustments to ensure that statutory records are in compliance with IFRS released by IASC.

(ii) Accounting of inflationist effects

Adjustments made due to changes in the purchasing capacity of TRY prior to January 1, 2006 were performed on the basis of the IAS 29 “Financial Reporting in Hyperinflationary Economies”. IAS 29 requires that the financial statements of an entity that reports in the currency of a hyperinflationary economy should be stated in terms of the measuring unit current at the balance sheet date and Comparative figures for prior period(s) should be restated into the same current measuring unit. The Turkish Catastrophe Insurance Pool ended the IAS 29 application as of January 1, 2006 as changes observed in the Turkish economy pointed to a halt of the hyperinflationary environment. Accordingly, amounts of December 31, 2005, denominated in the purchasing capacity of a New Turkish Lira current on the same date form a ground for carrying values in the accompanying financial statements.

Amounts indicated in the financial statements ending on December 31, 2005 were restated at the same date because of changes in the purchasing capacity of TRY prevailing on December 31, 2005. Such a restatement was made in accordance with adjustment coefficients determined on the basis of Producer Price Index (“PPI”) of December 31, 2005 as specified and held effective throughout Turkey by the Republic of Turkey, Prime Ministry, Turkish Statistical Institute (“TURKSTAT”). Indices and adjustment coefficients used for the restatement of financial statements dated December 31, 2005 are as follows:

Date	Index	Adjustment coefficient	Cumulative three-years' inflation rate
December 31, 2005	8,785.7	1.000	35.6%
December 31, 2004	8,403.8	1.045	69.7%
December 31, 2003	7,382.1	1.190	181.1%

Important comments about indexation as mentioned above are as follows:

- The current year’s financial statements prepared in the currency unit of a hyperinflationary economy are restated according to the purchasing capacity of the currency prevailing at the balance sheet date while amounts of the previous reporting period are restated in accordance with the purchasing capacity of the currency prevailing at the latest balance sheet date.
- Monetary assets and liabilities are not restated as they are denominated in monetary units prevailing during the balance sheet date.
- Non-monetary assets, liabilities not reflecting values during the balance sheet date and items of shareholder’s equity are restated by application of the relevant adjustment coefficients (monthly, average annual, and year-end).
- Comparative financial statements are restated by application of an inflation index in accordance with the purchasing capacity of the currency prevailing at the latest balance sheet.
- All items in the income statement are indexed by application of monthly adjustment coefficients.
- The effect of the inflation over the net monetary position of the Pool is reflected as the net monetary position loss in the income statement.

(iii) Records of the Previous Year

The Pool paid the adjustment premiums amounting to TRY 5,447,537 in relation to the excess of loss reinsurance contracts for the year 2005 in June 2006 so it entered the same into the accounts of 2006. In addition, the Pool restated the increase in fund reserves as of December 31, 2005 in the current period by reflecting accruals of adjustment premiums into the relevant period. Moreover, the Pool restated the previous year's records by increasing the reinsurance expenditures of the year ending on December 31, 2005 by TRY 9,589,050.

3.1.5.3 NOT 3 – Valuation Principles / Accounting Policies Applied

The financial statements prepared in accordance with IFRS involve application of significant accounting estimations and also evaluations of the management in the fulfilment of the Pool's accounting policies. The relevant accounting principles explain fields of significant evaluation and complexity as well as fields whereby assumptions are of great importance for the financial statements.

Net Premium Income

The Premium income is entered into accounts on a basis of daily accruals of earthquake policy premiums written during the year. The deferred instalments of the Premium income are taken as unearned premium reserves per each policy and on a pro-rata basis. Accrued commission expenditures corresponding to the unearned instalments of such premiums are deferred in the same manner.

Reinsurance expenditures

The Pool classifies current reinsurance agreements as reinsurance contracts concluded with reinsurance companies. The Pool enters into accounts reinsurance expenditures including premiums of the excess of loss reinsurance agreements on an accrual basis.

The excess of loss reinsurance agreements are renewed every year and involve the period from the month November of the previous year to the month October of the current year. Reinsurance expenditures which accrue during the current year therefore involve 10 months' portion of the reinsurance agreement ending on October 2006 and 2 months' portion of the said agreement ending on October 2007. Reinsurance expenditures entered into accounts in the current year contain intermediary fees accrued and paid to the brokers in addition to the adjustment premiums which accrue in accordance with the relevant reinsurance agreements.

Claims

Claims are entered into accounts on the basis of amounts reported during the period of occurrence of such losses. Reserves for the outstanding losses as of the end of the period are allocated for liabilities of all claim files that have incurred but not reported.

Tangible fixed assets

The tangible fixed assets are shown by deduction of accumulated depreciation from the acquisition costs denominated in the purchasing capacity of TRY on December 31, 2005. Depreciation, tangible fixed assets.

Investment financial assets are entered into accounts over the total amount of the reasonable values and transaction costs upon the initial purchase. The reasonable value of the available-for-sale financial assets determined at periods following recognition is determined by application of market values or other valuation methods. Loans, receivables and held-to-maturity financial assets are carried forward by deduction of impairment reserves over discounted sums by application of the effective interest rate method.

Gains and losses generated as a result of valuation of financial assets whose fair value difference is reflected into the profit/loss are included in the profit/loss accounts of the relevant period. Unrealized "profits and losses" derived from fair values of available-for-sale securities are not reflected into the income statement of the period from the occurrence of either of collection of values corresponding to the relevant assets, sell-off or disposal of or indigence in assets, and such profits and losses are monitored in the "fair value funds of securities" in the shareholder's equity. When the said financial assets are collected or disposed of, differences of accumulated fair values reflected into the shareholder's equity are reflected into the income statement.

Foreign currency translation

Foreign currency transactions made during the period were translated over the exchange rates prevailing during the dates of transactions. Foreign currency-based monetary assets and liabilities were translated over the exchange rates prevailing at the end of the period. Gains or losses of the foreign exchange arising out of the translation of the foreign currency-based assets and liabilities are reflected into the income statement.

Fair value of the financial assets and liabilities

The fair value is the price at which financial assets and liabilities are exchanged during a current transaction that may be executed between the willing parties except in a compulsory sell-off or winding process and is determined in the best way at a price which is traded at an organized market if any.

The Pool has determined the fair value estimates of its financial assets and liabilities by making use of the existing information about the current market and also by appropriate valuation methods. Consequently, estimates presented herein may not be an indicator of the values the company can produce at a current market transaction.

The following methods and assumptions are applied in the estimates of the fair value of the financial assets and liabilities whose fair values can be determined.

Monetary assets

The fair value of the balances denominated in foreign currencies translated by year-end exchange rates is considered to be proximate to its quoted values.

It is acknowledged that the quoted values of certain financial assets indicated as costs including cash and cash equivalents reflect their fair values as they are short-termed.

The fair value of the available-for-sale financial assets is based on the relevant stock exchange value.

It is assumed that the quoted prices of premium receivables reflect the fair price as they are short-termed.

Comparative Details

Comparative details were classified in accordance with changes in the current year so as to make the same in conformity with the submission of the current year's financial statements.

3.1.5.4 NOTE 4 – Insurance and Financial Risk Management

Insurance risk

The Pool provides earthquake coverage for constructions built as dwellings. The Pool's liability is limited to the accumulated funds it holds and also protection it obtains through reinsurance markets. Catastrophe risk models are considered in the determination of maximum limits and priorities concerning the reinsurance protection. The relevant limits are followed according to the cumulative developments per regions. Amounts of premiums are calculated according to tariff rates specified on the basis of earthquake zones and construction types. The maximum coverage which may be provided for a dwelling within the scope of a Compulsory Earthquake Insurance scheme is TRY 100,000 regardless of its construction type. Moreover, the minimum amount of the payable premium is TRY 25 irrespective of its earthquake zone and construction type.

Currency risk

The Pool exposes to a foreign exchange risk arising out of fluctuations in foreign exchange because of translation of currencies due into Turkish Lira. The said exchange rate risk is monitored and limited by analysis of the foreign currency position. (Note 21).

Interest rate risk

The Pool exposes to an interest rate risk due to fluctuations of interest rates having an impact on the interest-bearing assets and liabilities. The said interest rate risk is managed by natural measures by balancing the assets and liabilities which have an interest rate sensibility.

3.1.5.5 NOTE 5 – Cash and Cash Equivalents

	2006	2005
Bank deposits	407,249,105	208,899,391
	407,249,105	208,899,391
Bank deposits are detailed below:		
Foreign currency bank deposits		
- demand deposits	814	6,165
- time deposits	69,991,526	49,412,421
TRY bank deposits		
- demand deposits	-	1,205
- time deposits	337,256,765	159,479,600
	407,249,105	208,899,391

Details of time deposits denominated in foreign currency are listed below:

	Foreign Currency		TRY	
	2006	2005	2006	2005
USD	5,835,695	30,334,750	8,202,653	40,703,167
EUR	33,372,332	5,486,144	61,788,873	8,709,254
			69,991,526	49,412,421

The due dates of time deposits are less than one year and annual interest rates thereof are as below:

	Interest rate (%)	
	2006	2005
TRY	16-21.55	13-19.25
USD	5.75	4.55-5.75
EUR	4	2-3.75

Details of demand deposits denominated in foreign currency are listed below:

	Foreign Currency		TRY	
	2006	2005	2006	2005
EUR	-	3,825	-	5,132
USD	579	651	814	1,033
			814	6,165

3.1.5.6 NOTE 6 – Financial Assets

Available-for-sale financial assets

	2006	2005
Government bills and treasury bonds	79,808,504	91,878,896
Eurobond	9,755,864	9,143,932
Reverse repo trasactions	2,495,396	15,747
Investment funds	-	573,037
	92,059,764	101,611,612

Interest rates of available-for-sale financial assets are as below:

	2006 (%)	2005 (%)
Government bills and treasury bonds	7.50 – 17.31	14.10- 23.70
Eurobond	3.52-10.50	5.50– 10.50
Reverse repo transactions	16.50 -18	14

The portion of the government bonds, which amounts to TRY 23,240,441 bears a variable interest rate.

The analysis made on the maturity dates of the financial assets is indicated in the following table:

	2006						
	Up to one month	1-3 months	3-6 months	6-12 months	1-5 years over	5 years	Total Total
Reverse repo transactions	2,495,396	-	-	-	-	-	2,495,396
Government bonds and treasury bills	13,089,289	5,476,206	16,570,409	5,662,624	39,009,976	-	79,808,504
Eurobond	-	297,777	-	5,384,769	3,228,177	845,141	9,755,864
	15,584,685	5,773,983	16,570,409	11,047,393	42,238,153	845,141	92,059,764

3.1.5.7 NOTE 7 – Premium Receivables

	2006	2005
Receivables from insurance companies	15,522,849	13,553,492
	15,522,849	13,553,492

Details of securities held for premium receivables are listed below:

	2006	2005
Cash	70,280	2,150,905
	70,280	2,150,905

3.1.5.8 NOTE 8 – Other Current Assets

	2006	2005
Reinsurance premiums pertaining to the following years (*)	45,525,723	-
Pre-paid excess of loss premiums and broker fees	7,681,373	-
	53,207,096	-

(*) The reinsurance premiums pertaining to the following years cover expenditures incurred for the reinsurance protection purchased for the following period within the scope of reinsurance agreements in force (Note 11).

3.1.5.9 NOTE 9 – Tangible Fixed Assets

	January 1 2006	Entry	Withdrawal	December 31 2006
Cost				
Inventories	6,076,475	798,022	-	6,874,497
	6,076,475	798,022	-	6,874,497
Accumulated depreciation				
Inventories	(4,287,026)	(1,264,639)	-	(5,551,665)
	(4,287,026)	(1,264,639)	-	(5,551,665)
Net Book Value	1,789,449			1,322,832
	January 1 2005	In	Withdrawal	December 31 2005
Cost				
Inventories	6,054,047	22,428	-	6,076,475
	6,054,047	22,428	-	6,076,475
Accumulated depreciation				
Inventories	(3,074,503)	(1,212,523)	-	(4,287,026)
	(3,074,503)	(1,212,523)	-	(4,287,026)
Net Book Value	2,979,544			1,789,449

3.1.5.10 NOTE 10 – Borrowings

Long-term borrowings of USD 64,137,408 were received from the World Bank through the Republic of Turkey, Prime Ministry, and Turkish Undersecretariat of the Treasury, so as to cover losses that may be caused by an earthquake in the future.

	2006	2005
Interest and expense accruals	1,027,194	690,289
Short-term instalments of long-term borrowings	9,062,196	7,945,419
	10,089,390	8,635,708
Long-term borrowings	81,089,346	42,124,996
Total	91,178,736	50,760,704

Interest of long-term borrowings denominated in USD as of December 31, 2006 range from 4,22% to 6,25%. (December 31, 2005: 4,22-6,25%). Principal and interest payments for long-term borrowings are made in April and October twice a year.

The payment schedule for the long-term borrowings is as follows:

	2006	2005
2007	-	8,645,025
2008	9,117,118	8,645,025
2009	11,144,462	8,645,025
2010	17,843,119	8,645,025
2011	15,954,754	6,845,290
2012-2014	27,029,893	699,606
	81,089,346	42,124,996

3.1.5.11 NOTE 11 – Other Short-Term Liabilities

	2006	2005
Reinsurance premiums pertaining to the following years (*)	45,525,723	-
Reinsurance debit accruals	13,400,088	12,469,728
Operating fees payable for the Manager of the Poll	252,894	352,628
Other	1,012,769	57,715
	60,191,474	12,880,071

(*) The reinsurance premiums pertaining to the following years cover expenditures incurred for the reinsurance protection purchased for the following period within the scope of reinsurance agreements in force (Note 8).

3.1.5.12 NOTE 12 – Technical Reserves

12.1 Technical Reserves

	2006	2005
Unearned Premium Reserves	84,043,843	66,967,311
Reserves for Outstanding losses and Damagess	291,511	693,235
	84,335,354	67,660,546

12.2 Movement in technical reserves

Unearned premium reserves:

	2006	2005
Unearned Premium reserves as at the beginning of the period	66,967,311	54,715,651
Net change in unearned Premium reserves	17,076,532	12,251,660
Unearned Premium reserves as at the end of the period	84,043,843	66,967,311

3.1.5.13 NOTE 13 – Other Long-Term Liabilities

	2006	2005
Deposits and guarantees receive	70,280	2,150,905
Total	70,280	2,150,905

3.1.5.14 NOT 14 – Premium Income

	2006	2005
Premiums received	205,815,940	161,246,236
Unearned premium reserves	(84,043,843)	(66,967,311)
Unearned Premium reserves carried forward	66,967,311	54,715,402
Total	188,739,408	148,994,327

3.1.5.15 NOTE 15 – Claims

	2006	2005
Paid Losses	3,827,506	5,469,430
Expenses incurred for outstanding loss reserves	291,511	693,235
Outstanding loss reserves carried forward	(693,235)	(467,598)
Total	3,425,782	5,695,067

3.1.5.16 NOTE 16 – Commission Expenditures

	2006	2005
Expenditures incurred for commissions paid to insurance companies	34,077,671	25,164,990
Operating expenses paid to the Manager of the Pool	2,819,097	4,618,522
Total	36,896,768	29,783,512

3.1.5.17 NOTE 17 – Administration Expenditures

	2006	2005
Depreciation expenditures	1,264,639	1,212,523
IT maintenance expenditures	555,451	518,121
Advertising expenditures	545,088	2,417,973
Stationery Expenditures	200,643	122,417
Personnel expenses	157,906	145,439
Expenditures for fund management fees	94,455	287,065
Other	136,318	247,221
Total	2,954,500	4,950,759

3.1.5.18 NOTE 18 – Financial Income

	2006	2005
Interest income	45,634,946	16,103,582
Income on Securities	11,629,939	20,294,089
Exchange profit	26,837,947	4,738,209
Total	84,102,832	41,135,880

3.1.5.19 NOTE 19 – Financial Expenditures

	2006	2005
Interest expense	3,983,703	1,290,574
Exchange loss	20,463,757	5,490,297
Total	24,447,460	6,780,871

3.1.5.20 NOTE 20 – Other Expenditures

	2006	2005
Loss adjustment expenses	479,978	638,474
Other	10,425	5,804
Total	490,403	644,278

3.1.5.21 NOTE 21 – Foreign Currency Position

Details of assets and liabilities denominated in foreign currencies are listed as below:

	2006	2005
Assets	132,955,300	58,562,518
Liabilities	(150,104,547)	(63,230,432)
	(17,149,247)	(4,667,914)

	2006		
Liquid Assets			
	Foreign Currency Amount	Exchange Rate TRY	Amount TRY
USD	5,835,695	1.4056	8,202,653
EUR	33,372,911	1.8515	61,789,687
			69,992,340

Available-for-sale financial assets			
	Foreign Currency Amount	Exchange Rate TRY	Amount TRY
USD	6,278,487	1.4056	8,825,042
EUR	502,739	1.8515	930,822
			9,755,864

Other current assets			
	Foreign Currency Amount	Exchange Rate TRY	Amount TRY
EUR	28,737,292	1.8515	53,207,096
			53,207,096

Short-term instalments of long-term borrowings			
	Foreign Currency Amount	Exchange Rate TRY	Amount TRY
USD	7,177,995	1.4056	10,089,390
			10,089,390

Other short-term liabilities			
	Foreign Currency Amount	Exchange Rate TRY	Amount TRY
EUR	31,825,985	1.8515	58,925,811
			58,925,811

Long-term borrowings			
	Foreign Currency Amount	Exchange Rate TRY	Amount TRY
USD	57,690,201	1.4056	81,089,346
			81,089,346

Liquid Assets	2005		
	Foreign Currency Amount	Exchange Rate TRY	Amount TRY
USD	30,338,575	1.3418	40,708,299
EUR	5,486,795	1.5873	8,710,287
			49,418,586
Available-for-sale financial assets	Foreign Currency Amount	Exchange Rate TRY	Amount TRY
USD	6,219,854	1.3418	8,345,833
EUR	502,739	1.5875	798,099
			9,143,932
Short-term instalments of long-term borrowings	Foreign Currency Amount	Exchange Rate TRY	Amount TRY
USD	6,435,913	1.3418	8,635,708
			8,635,708
Other short-term liabilities	Foreign Currency Amount	Exchange Rate TRY	Amount TRY
EUR	7,854,947	1.5875	12,469,728
			12,469,728
Long-term borrowings	Foreign Currency Amount	Exchange Rate TRY	Amount TRY
USD	31,394,394	1.3418	42,124,996
			42,124,996

3.1.5.22 NOTE 22 – Events After Balance Sheet Date

The following issues were amended as per the Amendments on the Tariff Rates and Instructions of the Compulsory Earthquake Insurance scheme as promulgated in the Official Gazette numbered 26440 (Original) and dated February 20, 2007 following the balance sheet.

- The maximum coverage which may be provided for a dwelling within the scope of a Compulsory Earthquake Insurance scheme is increased to TRY 110,000 regardless of its construction type.(December 31, 2006: TRY 100,000).
- The minimum amount of the payable premium is increased to TRY 30 irrespective of its earthquake zone and construction type. (December 31, 2006: TRY 25).
- In the applicable tariff, the insured sum per square meter is determined as TRY 450 for steel and reinforced concrete constructions (December 31, 2006: TRY 410), TRY 320 for constructions built of piled stones (December 31, 2006: TRY 290) and TRY 170 for other constructions (December 31, 2006: TRY 155).

3.1.5.23 NOTE 23 – Provisions and Contingency Liabilities

The total risk amount of claims which have already been opened against the Turkish Catastrophe Insurance Pool and are still pending is TRY 219,511 as of December 31, 2006 (2005: TRY 235,719). Provisions reserved for the probable risks that may occur upon settlement of the relevant cases are indicated as reserves for outstanding losses and damages.