

Aksigorta Anonim Őirketi

**Financial Statements
Together With
Report of Independent Auditors
December 31, 2003**

AKSIGORTA ANONİM ŞİRKETİ

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
Aksigorta Anonim Şirketi;

We have audited the accompanying balance sheet of Aksigorta Anonim Şirketi (the Company) as of December 31, 2003 and the related income, changes in equity and cash flow statements for the year then ended, all expressed in the equivalent purchasing power of Turkish lira as of December 31, 2003. 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.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements of the Company for the year ended December 31, 2002 were audited by other auditors, whose report dated February 28, 2003 expressed an unqualified opinion on those financial statements before the restatement adjustments related with the amendment in application of International Accounting Standard IAS 39: Financial Instruments: Recognition and Measurement and; an accounting treatment for earthquake reserve as described in Note 2.

In our opinion, the financial statements, present fairly, in all material respects, the financial position of the Company as of December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

February 27, 2004
İstanbul, Turkey

Aksigorta Anonim Şirketi

BALANCE SHEET

As at December 31, 2003

(Currency – In millions of Turkish Lira in equivalent purchasing power at December 31, 2003)

ASSETS

	Notes	2003	Restated 2002
Cash and cash equivalents	3	39,512,494	57,101,590
Investments in securities	4	788,428,560	525,168,489
Premium receivables	5	110,115,652	91,677,779
Prepayments and other current assets		526,630	201,947
Investment in associate	6	8,173,406	5,452,381
Property and equipment	7	44,350,882	40,432,590
Deferred tax assets	12	3,168,066	3,535,595
Total assets		994,275,690	723,570,371

LIABILITIES AND EQUITY

Due to insurance and reinsurance companies	8	13,935,112	18,843,453
Insurance technical reserves	11	114,887,268	93,173,838
Income taxes payable	12	2,296,080	5,469,787
Other payables and accrued liabilities	9	3,407,378	2,797,245
Provision for employee termination benefits	10	1,966,997	1,870,681
Total liabilities		136,492,835	122,155,004
Equity			
Share capital	13	238,753,347	182,943,335
Legal reserves and accumulated profits	14	365,005,834	336,105,040
Unrealized gain		254,023,674	82,366,992
Total equity		857,782,855	601,415,367
Total liabilities and equity		994,275,690	723,570,371

The accompanying policies and explanatory notes on pages 6 through 27 form an integral part of the financial statements.

Aksigorta Anonim Şirketi

INCOME STATEMENT

For the Year Ended December 31, 2003

(Currency – In millions of Turkish Lira in equivalent purchasing power at December 31, 2003)

	Notes	2003	Restated 2002
Income			
Net premium revenue	19	128,289,849	121,895,841
Commission income		38,398,424	48,315,842
Interest income – life		8,566,590	12,429,055
Interest income – general business		26,759,992	27,094,279
Dividend income	16	42,442,279	1,023,045
Foreign exchange gain, net		1,239,813	1,139,567
Other income		19,795,732	16,257,699
Gain on available for sale securities		57,077,414	-
Total income		322,570,093	228,155,328
Expenses			
Net claims	19	(99,187,521)	(65,955,058)
Mathematical provision, net		(8,545,980)	(2,180,694)
Commission expense		(44,136,359)	(40,260,133)
Administrative expenses	19	(32,832,556)	(24,222,122)
Other expenses	4	(11,560,892)	(646,105)
Total expenses		(196,263,308)	(133,264,112)
Income before provision for taxes and monetary loss		126,306,785	94,891,216
Provision for taxes	12	(5,876,720)	(17,964,447)
Income before monetary loss		120,430,065	76,926,769
Monetary loss		(21,297,316)	(52,892,555)
Net income		99,132,749	24,034,214

The accompanying policies and explanatory notes on pages 6 through 27 form an integral part of the financial statements.

Aksigorta Anonim Şirketi

STATEMENT OF CHANGES IN EQUITY

For the Year Ended December 31, 2003

(Currency – In millions of Turkish Lira in equivalent purchasing power at December 31, 2003)

	Share Capital	Legal Reserves And Accumulated Profits	Unrealised Gain (Loss)	Total
Balances at January 1, 2002 - as previously reported	151,991,135	354,518,422	-	506,509,557
Restatement due to IAS 39 application correction and accounting treatment for earthquake reserve (Note 2)	-	7,622,501	86,734,448	94,356,949
Balances at January 1, 2002 - as restated	151,991,135	362,140,923	86,734,448	600,866,506
Increase in share capital	30,952,200	-	-	30,952,200
Dividends paid	-	(50,070,097)	-	(50,070,097)
Restatement due to IAS 39 application and accounting treatment for earthquake reserve (Note 2)	-	5,081,975	(4,367,456)	714,519
Net income for the year	-	18,952,239	-	18,952,239
Balances at December 31, 2002 - as restated	182,943,335	336,105,040	82,366,992	601,415,367
Balances at December 31, 2002 – as previously reported	182,943,335	323,400,964	-	506,344,299
Restatement due to IAS 39 application correction and accounting treatment for earthquake reserve (Note 2)	-	12,704,076	82,366,992	95,071,068
Balances at January 1, 2003 – as restated	182,943,335	336,105,040	82,366,992	601,415,367
Dividends paid	-	(14,421,943)	-	(14,421,943)
Net gain on available for-sale investments	-	-	228,734,096	228,734,096
Net gain on available for-sale investments removed from equity and reported in net profit	-	-	(57,077,414)	(57,077,414)
Net income for the year	-	99,132,749	-	99,132,749
Share capital increase Through income from available for-sale investment sale (Note 13)	55,810,012	(55,810,012)	-	-
Balances at December 31, 2003 - as restated	238,753,347	365,005,834	254,023,674	857,782,855

The accompanying policies and explanatory notes on pages 6 through 27 form an integral part of the financial statements.

Aksigorta Anonim Şirketi

CASH FLOW STATEMENT

For the Year Ended December 31, 2003

(Currency – In millions of Turkish Lira in equivalent purchasing power at December 31, 2003)

	2003	2002
Cash flows from operating activities		
Premium written	135,552,848	121,379,696
Claims paid	(87,612,440)	(75,853,694)
Interest received	33,589,789	39,523,334
Dividend received	42,442,279	1,023,045
Commissions received	38,398,424	48,315,842
Commissions paid	(44,136,359)	(40,260,133)
Cash payments to employees	(12,063,010)	(9,945,353)
Cash received from other operating activities	19,106,418	41,493,817
Cash paid for other operating activities	(67,067,040)	(70,756,608)
Income taxes paid	(9,115,101)	(22,312,967)
Cash flows from operating activities before change in operating assets and liabilities	49,095,808	105,094,706
Increase in premium receivables	(19,005,461)	(20,356,898)
Decrease in prepayments and other current assets	(324,683)	3,410,118
Increase in due to insurance and reinsurance companies	(2,731,433)	(12,716,256)
Increase in other liabilities	1,138,652	(3,257,012)
Increase in technical reserves	2,875,350	(16,548,212)
Net cash from operating activities	31,048,233	51,449,247
Increase in investment in associate	(2,721,025)	(2,795,677)
Purchases of held to maturity securities	(88,677,427)	15,611,544
Proceeds from redemption of held to maturity securities	12,698,270	-
Purchase of premises and equipment	(6,440,905)	(2,073,368)
Proceeds from sale of premises and equipment	2,084,189	303,692
Net cash provided by (used in) investing activities	(83,056,898)	11,046,191
Increase in share capital	55,810,012	11,999,963
Dividends paid	(14,421,943)	(49,438,799)
Net cash provided by (used in) financing activities	41,388,069	(37,438,835)
Effect of net foreign currency differences and monetary gain on cash and cash equivalents	(6,968,500)	(10,222,638)
Net increase in cash and cash equivalents	(10,620,596)	(16,442,569)
Cash and cash equivalents at beginning of year	57,101,590	83,797,977
Cash and cash equivalents at end of year	39,512,494	57,101,590

The accompanying policies and explanatory notes on pages 6 through 27 form an integral part of the financial statements.

Aksigorta Anonim Şirketi

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

(Currency – In millions of Turkish Lira in equivalent purchasing power at December 31, 2003)

1. CORPORATE INFORMATION

General

Aksigorta Anonim Şirketi (“the Company”) was incorporated in accordance with Turkish Commercial Law on April 25, 1960. The Company is a subsidiary of Hacı Ömer Sabancı Holding A.Ş., which owns approximately 57.4% of the total shares as of December 31, 2003. Certain shares of the Company are listed on the İstanbul Stock Exchange since 1994. As of December 31, 2003, 42.6% of the Company’s shares are publicly traded (2002 – 42.6%).

The Company is registered at Meclis-i Mebusan Cad. No:147 Fındıklı – İstanbul, Turkey.

The financial statements of the Company are authorized for issue by the senior management on February 27, 2004. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

Nature of Activities

The Company is regulated under Government Insurance Law, No.7397 and the related pronouncements in support of this Law.

According to Clause 4 of its Charter published on April 6, 1960 revised on May 3, 1995, the Company conducts all types of insurance and reinsurance activities in Turkey and in other countries, represents other insurance and reinsurance companies, purchases securities including government bonds and treasury bills, acquires property and valuable paper as security and makes property loans.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the International Accounting Standards Board and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee (IASC) that remain in effect. The financial statements have been prepared on an historical cost convention except for the measurement at fair value of available for sale securities.

The Company which is incorporated in Turkey, maintains its books of account and prepares its statutory financial statements in accordance with the Turkish Commercial Code, Uniform Chart of Accounts Specified by the Undersecretariat of Treasury for Insurance and Reinsurance Companies and Tax Legislation. As IFRS does not currently contain any insurance-specific guidelines, the financial statements have been prepared from statutory financial statements of the Company and presented in accordance with IFRS in Turkish Lira (TL) with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS. Such adjustments mainly comprise effects of restatement for the changes in the general purchasing power of TL, accounting of deferred taxation and employee termination benefits.

Aksigorta Anonim Şirketi

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2003

(Currency – In millions of Turkish Lira in equivalent purchasing power at December 31, 2003)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassifications on 2002 Financial Statements

Certain reclassifications have been made to the financial statements as of December 31, 2002 to be consistent with the current year presentation.

Correction for the Classification and Valuation of Certain Equity Investments

The financial statements as of and for the year ended December 31, 2002 have been restated to correct the application of International Accounting IAS 39 – Recognition and Measurement as to classification of certain equity investments with the shareholding percentages less than 10% into available for sale securities and remeasurement at fair value. The impact of correction related with unrealized gain as of December 31, 2002 amounting to TL 82,366,992 has been recognized as a separate component of equity.

Change in Accounting Treatment

In accordance with regulations of Turkish Undersecretariat of Treasury for Insurance and Reinsurance Companies, insurance companies are required to set a reserve for earthquake claims. This is the reserve set for 15 years beginning from 1993 to compensate the future earthquake damage risks. This allowance covers the residual amount of earthquake premiums produced within engineering and fire insurance policies after one third of such premiums are deducted for commission and other expenses and is reflected in each year's income statement. The revenues of funds held for earthquake reserve are also accounted within this allowance. The claims that are paid for damage and compensation as a result of the guarantees given for earthquake are deducted from allowance for earthquake claims. However, the amounts set aside for earthquake reserve do not qualify for recognition as provisions under IAS 37 - Provisions, Contingent Liabilities and Contingent Assets, therefore they should be recognized as appropriations of retained earnings. Accordingly, management decided to account such reserves carried in the financial statements as undistributable accumulated profits. Such change in accounting treatment resulted in a net increase in legal reserves and accumulated profits for the year ended December 31, 2002 of TL 12,704,476.

Measurement Currency, Reporting Currency and Translation Methodology

Measurement and Reporting Currency for the Company:

Measurement currency of the Company is TL. The restatement for the changes in the general purchasing power of TL as of December 31, 2003 is based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three year inflation rate approaching or exceeding 100%. As of December 31, 2003, the three year cumulative rate has been 181% (2002 – 227%) based on the Turkish countrywide wholesale price index published by the State Institute of Statistics. Such index and conversion factors as of the end of the three year period ended December 31, 2003 are given below:

Dates	Index	Conversion Factors
December 31, 2001	4,951	1.491
December 31, 2002	6,478	1.139
December 31, 2003	7,382	1.000

Aksigorta Anonim Şirketi

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2003

(Currency – In millions of Turkish Lira in equivalent purchasing power at December 31, 2003)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The main guidelines for the above mentioned restatement are as follows :

- the financial statements of prior year, including monetary assets and liabilities reported therein, which were previously reported in terms of the measuring unit current at the end of that year are restated in their entirety to the measuring unit current at December 31, 2003.
- monetary assets and liabilities reported in the balance sheet as of December 31, 2003 are not restated because they are already expressed in terms of the monetary unit current at that balance sheet date.
- the inflation adjusted share capital was derived by indexing cash contributions, dividends reinvested, income from the sale of equity investments and property, transferred to share capital from the date they were contributed.
- non-monetary assets and liabilities which are not carried at amounts current at the balance sheet date and other components of equity (except for the statutory revaluation adjustment which is eliminated) are restated by applying the relevant conversion factors.
- the effect of general inflation on the net monetary position is included in the income statement as monetary gain (loss).
- all items in the income statement are restated by applying appropriate average conversion factors with the exception of depreciation, amortisation, gain or loss on disposal of non-monetary assets (which have been calculated based on the restated gross book values and accumulated depreciation/amortisation).

Restatement of balance sheet and income statement items through the use of a general price index and relevant conversion factors does not necessarily mean that the Company could realize or settle the same values of assets and liabilities as indicated in the balance sheets. Similarly, it does not necessarily mean that the Company could return or settle the same values of equity to its shareholders.

Foreign Currency Translation

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Foreign currency translation rates used by the Company as of respective period and year-ends are as follows:

Dates	USD/TL(full)	EUR / TL (full)
December 31, 2002	1,634,501	1,703,477
December 31, 2003	1,395,835	1,745,072

Aksigorta Anonim Şirketi

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2003

(Currency – In millions of Turkish Lira in equivalent purchasing power at December 31, 2003)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Insurance Technical Reserves

Unearned Premium Reserve

Unearned premiums are those proportions of the premiums written in a year that relate to the period of risk subsequent to the balance sheet date for all policies other than life policies with more than one year of maturity. Unearned premium reserve set aside for unexpired risks has been computed on daily pro-rata basis for the policies issued after January 1, 2003 and one twentyfourth method for the policies issued prior to January 1, 2003 which assumes that premium revenues are realized on average in the middle of each month.

In calculating the provision for unearned premiums, reinsurance commissions are deferred with the same rates used in unearned premium calculation and included in current period unearned premium reserve.

Acquisition Costs

The commission expenses incurred in acquiring the unearned portion of premiums are recorded under unearned premium reserve as deferred acquisition costs and recognized in the profit and loss account on the same basis as the premiums to which they relate.

Outstanding Claims / IBNR Reserves

Outstanding claims reserve represents the estimate of the total reported costs of notified claims on an individual case basis at the end of the period / year, as well as the corresponding handling costs. A provision is established for claims incurred but not reported (IBNR) as of the balance sheet date.

Mathematical Reserves

The mathematical reserves have been calculated on the life policies in force at year-end by using actuarial assumptions and formulas, which have been approved by the Prime Ministry Undersecretariat of Treasury (Treasury). The actuarial reserve is calculated on the basis of actuarial principles from the cash value of future claims and benefits paid less the cash value of premiums not yet paid. The accounting principles (e.g. in respect of interest or mortality) vary depending on the product.

Profit Share Reserve

Profit share is the portion of investment income allocated to life policy holders from income generated due to premiums of life policies with a savings clause. Such policies normally have at least 10 years of maturity and policy holders are entitled to receive a profit share after 3 years from the date of policy issuance. Profit share is calculated on an individual policy basis. Investment income presented within interest income represents income generated through utilization of funds associated with mathematical reserves in various investment tools whereas provision for profit share represents the amount allocated to policy holders out of investment income after certain deductions.

Receivables

Receivables arising from insurance operations and other receivables are stated at amortized cost. This generally corresponds to the nominal value of the amount receivable. Permanent diminutions in value (impairment losses) are charged directly to the income statement.

Aksigorta Anonim Şirketi

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2003

(Currency – In millions of Turkish Lira in equivalent purchasing power at December 31, 2003)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions for overdue receivables and receivables under legal follow-up

Balances of agencies and policyholders under legal follow-up and agencies and policyholders for which management identifies problems in credit worthiness are classified as doubtful receivables. Based upon its evaluation of such receivables, management estimates the total allowance that it believes is adequate cover specific uncollectible amounts. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in the income statement as they become known.

Impairment and uncollectibility are measured and recognized individually for premium receivables that are individually significant and on a portfolio basis for a group of premium receivables that are not individually identified as impaired.

Reinsurance

Reinsurance ceded is business which has been ceded to insurance companies outside the Company and comprises amounts which relate to direct life and non-life business.

Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. The amounts paid under the reverse purchase agreements are included in the cash and cash equivalents.

Reverse Repurchase Transactions

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repurchase agreements) are not recognised in the balance sheet, as the Company does not obtain control over the assets. Amounts paid under these agreements are included in cash and cash equivalents. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement.

Investments in Securities

The Company designates its securities portfolio in accordance with IAS 39 as follows :

Securities held to maturity

Securities with fixed or determinable payments and fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Management determines the appropriate classification of its investments at the time of the purchase.

Held-to-maturity investments are carried at amortized cost using the effective yield method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognised or impaired, as well as through the amortization process.

Interest earned while holding held to maturity securities is reported as interest income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Aksigorta Anonim Şirketi

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2003

(Currency – In millions of Turkish Lira in equivalent purchasing power at December 31, 2003)

Securities available for sale

Available for sale securities are those that are not held to maturity investments. Available for sale securities are subsequently carried at fair value. Gains or losses on remeasurement to fair value are recognized as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in income.

For investments that are actively traded in organized financial markets, fair value is determined by reference to Stock Exchange quoted market bid price at the close of business on the balance sheet date. For investments where there is no quoted market price and fair values cannot be measured reliably, those investments are carried at cost less impairment.

Interest earned on available for sale investments is reported as interest income. Dividends received are included in dividend income.

Investment in Associates

Associate is an entity in which the Company has significant influence and which is neither subsidiary nor joint-venture. Investment in associates are carried at cost less any impairment in value.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows :

Buildings	50 years
Furniture, fixtures and vehicles	5years

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Recognition and Derecognition of Financial Instruments

The Company recognizes a financial asset or financial liability in its balance sheet when and only when it becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset or a portion of financial asset when and only when it loses control of the contractual rights that comprise the financial asset or a portion of financial asset. The Company derecognizes a financial liability when and only when a liability is extinguished that is when the obligation specified in the contract is discharged, cancelled and expires.

Aksigorta Anonim Şirketi

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2003

(Currency – In millions of Turkish Lira in equivalent purchasing power at December 31, 2003)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Company commits to purchase or to sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Employee Termination Benefits

In accordance with existing social legislation, the Company is required to make lump-sum termination indemnities to each employee who has completed one year of service with the Company and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

In the financial statements the Company has reflected a liability calculated using the Projected Unit Credit Method and based upon estimated inflation rates and factors derived using the Company's experience of personnel terminating their services and being eligible to receive such benefits and discounted by using the current market yield at the balance sheet date on government bonds.

The principal actuarial assumptions used at the balance sheet dates are as follows :

	2003	2002
Discount rate	25%	43%
Expected rates of salary/limit increase	18%	35%

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Claims

Claims incurred comprise all claims occurring during the year, together with their related expertise expenses, and any adjustments to claims outstanding from the previous year offset against the portion attributed to the reinsurer firms. When applicable, deductions are made for estimated salvage and recoveries.

Revenue Recognition :

Premium Income

Premium income represents premiums on policies written during the year, net of premium ceded to reinsurer firms and by the reserve for unearned premiums. Premiums are recorded as income at the date of policy issuance except for the life branch for which premiums are recorded as income when they become due.

Interest

Revenue is recognised as the interest accrues (taking into account the effective yield of the asset).

Aksigorta Anonim Şirketi

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2003

(Currency – In millions of Turkish Lira in equivalent purchasing power at December 31, 2003)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Revenue is recognised when the shareholders' right to receive the payments is established.

Income Tax

Tax expense / (income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred tax.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Use of Estimates

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet. Actual results may vary from the current estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

3. CASH AND CASH EQUIVALENTS

	2003	2002
Cash on hand	2,957	3,573
Funds lent under reverse repurchase agreements	4,299,226	3,751,158
Bank accounts (including short-term time deposits)	35,210,311	53,346,859
Total	39,512,494	57,101,590

3. CASH AND CASH EQUIVALENTS (continued)

Aksigorta Anonim Şirketi

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2003

(Currency – In millions of Turkish Lira in equivalent purchasing power at December 31, 2003)

Breakdown of time deposits is as follows :

	2003				2002			
	Original amount	TL equivalent	Maturity	Interest Rate	Original amount	TL equivalent	Maturity	Interest Rate
U.S. Dollars	2,750,000	3,838,546	January 2-3, 2004	1.75%	3,500,000	5,720,753	January 2-3, 2003	1.75%
TL	23,000,000	23,000,000	January 5-7, 2004	28-24%	36,400,000	36,400,000	January 3-6, 2003	44.00%
		26,838,546				42,120,753		

As of December 31, 2003, the maturities of reverse repurchase agreements are on January 2, 2004 with an interest rate of 38% (2002-43.5%).

Foreign currency breakdown of cash and cash equivalents is as follows :

Foreign Currency	2003		2002	
	Original amount	TL equivalent	Original amount	TL equivalent
U.S. Dollars	2,891,773	4,036,438	3,709,582	6,196,709
EUR	29,044	56,684	14,264	24,834
GBP	8,341	20,657	14,587	39,041
CHF	4,132	4,614	9,096	10,873
JPY	263,488	3,432	218,830	3,053
	-	4,121,825	-	6,274,510

4. INVESTMENTS IN SECURITIES

	2003	2002
Securities available for sale		
<i>Listed securities carried at fair value</i>		
Equity investments	638,640,089	451,474,123
Mutual funds	20,797,809	10,284,931
<i>Unlisted securities carried at cost</i>		
Equity investments	6,254,503	16,652,433
Total available for sale securities	665,692,401	478,411,487
Held to maturity securities carried at amortized cost		
<i>Debt securities</i>		
Treasury bills	52,284,621	3,832,510
Treasury bills – pledged	54,967,819	42,924,492
Eurobonds	15,483,719	-
Total held to maturity securities	122,736,159	46,757,002
	788,428,560	525,168,489

The mutual funds comprise of funds whose portfolio consist of floating and fixed income securities and equity investments.

4. INVESTMENTS IN SECURITIES (continued)

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NOTES TO FINANCIAL STATEMENTS (Continued)

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As of December 31, 2003, the maturities of TL denominated treasury bills in held to maturity portfolio range between March 3, 2004 and May 11, 2005 and the effective interest rates range between 28% and 62%. The maturities of Eurobond securities range between January 24, 2008 and March 19, 2008 and the effective interest rate is 9.87%.

The breakdown of equity investments is as follows:

	2003		2002	
	Carrying Value	Ownership Interest	Carrying Value	Ownership Interest
<i>Listed equity securities carried at fair value</i>				
Akbank T.A.Ş. (Akbank)	578,006,713	7.87%	411,292,544	7.87%
Akçansa Çimento San. ve Tic. A.Ş. (Akçansa)	49,335,455	7.48%	32,287,952	7.48%
Çimsa Çimento San. ve Tic. A.Ş. (Çimsa)	10,580,541	2.57%	7,128,048	2.57%
Yünsa Yünlü San. ve Tic. A.Ş. (Yünsa)	717,380	1.49%	765,579	1.49%
	638,640,089		451,474,123	
<i>Unlisted securities carried cost</i>				
Türsa Sabancı Turizm ve Yatırım İşletmeleri A.Ş. (Türsa)	14,589,118	2.57%	14,493,533	2.57%
Others	2,177,338	-	2,158,903	-
Less: Impairment provision	(10,511,953)		-	
	6,254,503		16,652,436	

In 2003, the Company set impairment provision for its investment in Türsa and related amount is reflected under other expenses in the income statement.

As of December 31, 2003 the fair value of held to maturity securities is TL 126,513,883 (2002 – TL 46,958,482).

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

As of December 31, 2003, the amount of such guarantees (computed over direct premiums earned in 2003) set aside is as TL 66,687,000 (2002 – TL 47,556,000).

5. PREMIUM RECEIVABLES

	2003	2002
Receivable from customers insured and agents	102,172,255	86,204,574
Receivable from insurance companies and reinsurers	2,345,724	1,895,689
Receivables under legal follow-up	14,144,818	15,354,306
Others	451,668	427,005
	119,114,465	103,881,574
Less: Provision for doubtful receivables	(8,998,813)	(12,203,795)
	110,115,652	91,677,779

Maturity of premium receivables are up to six months.

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NOTES TO FINANCIAL STATEMENTS (Continued)

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6. INVESTMENT IN ASSOCIATE

Entity	Principle Activities	2003		2002	
		Carrying Value	Ownership Interest	Carrying Value	Ownership Interest
Ak Emeklilik A.Ş.	Life and retirement insurance	8,173,406	26.00%	5,452,381	26.00%

Certain financial highlights of the associate is as follows:

Entity	Equity	2003		Equity	2002	
		Net Income	Total Asset		Net Income	Total Asset
Ak Emeklilik A.Ş.	38,358,324	3,512,585	94,490,288	22,745,511	2,011,397	59,397,035

7. PROPERTY AND EQUIPMENT

	Land and Land Improvements	Building	Vehicle	Furniture and Fixtures	Total
Cost					
At January 1, 2003	5,339,460	34,847,963	692,001	15,236,410	56,115,834
Additions	-	4,571,017	704,337	1,165,551	6,440,905
Disposals	-	-	(170,975)	(2,314,067)	(2,485,042)
At December 31, 2003	5,339,460	39,418,980	1,225,363	14,087,894	60,071,697
Accumulated Depreciation					
At January 1, 2003	-	(6,932,188)	(335,149)	(8,415,907)	(15,683,244)
Current year charge	-	(578,110)	(119,094)	(779,797)	(1,477,001)
Disposal	-	-	116,994	1,322,436	1,439,430
At December 31, 2003	-	(7,510,298)	(337,248)	(7,873,268)	(15,720,815)
Net book value at December 31, 2003	5,339,460	31,908,682	888,115	6,214,626	44,350,882

8. DUE TO INSURANCE AND REINSURANCE COMPANIES

	2003	2002
Payable to insurance and reinsurance companies - third parties	13,886,085	18,730,142
Due to related parties	19,890	2,204
Reinsurance deposits	29,137	111,107
	13,935,112	18,843,453

As of December 31, 2003 and 2002, foreign currency payables to reinsurance companies amount to USD 2,407,842 and USD 3,140,731, respectively. Average terms of payables are up to six months.

Balances with reinsurance companies are reconciled quarterly, and reconciliations are completed within three to four months following the quarter end. The Company has completed there conciliation and settlement of the first three quarts' balances. The last quarter balances will be reconciled subsequent to the balance sheet date.

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NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2003

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9. OTHER PAYABLES AND ACCRUED LIABILITIES

	2003	2002
Taxes and duties payables	2,067,316	1,756,173
Payables to suppliers	981,260	548,871
Commission payable to agents	153,346	148,770
Other payables	205,456	343,531
	3,407,378	2,797,245

10. PROVISION FOR EMPLOYEE TERMINATION BENEFITS

	2003	2002
At January 1, 2002	1,870,681	2,183,521
Charge for the year	324,608	201,832
Monetary gain	(228,292)	(514,672)
	1,966,997	1,870,681

11. INSURANCE TECHNICAL RESERVES

	2003	2002
Unearned premium reserve	133,325,631	121,792,897
Reinsurers' share in unearned premium reserve	(79,355,318)	(75,085,583)
Unearned premium reserve, net	53,970,313	46,707,314
Outstanding claims reserve	74,798,708	70,214,583
Reinsurers' share in outstanding claims reserve	(53,155,220)	(58,400,507)
Outstanding claim reserve, net	21,643,488	11,814,076
Life-mathematical reserve	11,833,920	11,209,938
Life-profit share reserve	26,309,857	22,501,953
Life-claims reserve, net	1,129,690	940,557
	114,887,268	93,173,838

12. INCOME TAXES

Income tax

General Information

The corporation tax rate for the fiscal year ended December 31, 2002 was 30% plus an additional 10% fund levy, giving an effective tax rate of 33%. A 19.8% withholding tax was applied to investment deductions which were exempt from corporation tax. Where distributions had been made in respect of 2002 and prior years, withholding taxes of 5.5% and 16.5% (both including the additional 10% fund levy) applied to distributions made by either public or private corporations, respectively. This withholding tax only applied to amounts distributed that had been subject to corporation tax.

Aksigorta Anonim Şirketi

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2003

(Currency – In millions of Turkish Lira in equivalent purchasing power at December 31, 2003)

12. INCOME TAXES (continued)

Law No. 4842, effective from April 24, 2003, abolished the 10% fund levy. Beginning with the current year, the effective corporation tax rate reverted to 30%. However, with Law No: 5035 published at January 2, 2004, only for the year 2004, the corporation tax will be calculated at 33%.

Effective from April 24, 2003, income from 2002 and prior years will not be subject to withholding taxes if it is undistributed, is transferred to share capital or is distributed to resident tax-paying corporations. Where profits are distributed to resident taxpaying real persons, to those who are exempt from income and corporate tax, to those who are not income or corporation tax payers, to non-resident corporations, to non-resident real persons and to those who are exempt from income tax, a 10% withholding tax is applied. However profit distributions up to December 31, 2003 shall be subject to an effective tax rate of 11% due the continuation of the fund levy until that date. On the other hand, profit distributions on income from 2002 and prior years which had been exempt from corporation tax and income which had been subject to 19.8% withholding tax due to investment incentive certificates obtained based on applications made prior to April 24, 2003 will not be subject to withholding tax.

Effective from April 24, 2003, investment incentive certificates will not be required to utilise an investment deduction in calculating the corporate income tax base. No withholding taxes will apply to the investment deduction; however the deduction will be limited to 40%. Investment deductions made as a result of holding investment incentive certificates for which application was made prior to April 24, 2003, and unused investment deductions carried forward from previous periods due to insufficient taxable profits, will be subject to a 19.8% withholding tax. Where, however, investment certificates were obtained based on applications made prior to April 24, 2003, an exemption from this withholding tax is available if written notification was made to the tax authorities before May 15, 2003. In this case the investment deduction will be limited to 40%. With the Law No. 5024 published on December 30, 2003, tax-paying corporations which did not notify the tax authorities were given right to make a notification until the filing date of first quarterly temporary tax return subsequent to the date Law No. 5024 became effective which is January 1, 2004.

The tax legislation provides for a temporary tax of 30% (25% before April 24, 2003) to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final tax liability for the year. However, in accordance with Law No. 5035, effective from January 2, 2004, temporary taxes for the year 2004 will be calculated and paid at the rate of 33%.

Tax returns are required to be filed until the fifteenth of the fourth month following the balance sheet date and paid in one installment until the end of the fourth month (2002- 3 installments).

In 2003 and prior years, corporation tax is computed on the statutory income tax base determined in accordance with the Procedural Tax Code without any adjustment for inflation accounting. With Law No. 5024 published on December 30, 2003 related with changes in Procedural Tax Code, Income Tax Law and Corporation Tax Law, starting from January 1, 2004, taxable income will be derived from the financial statements which are adjusted for inflation accounting. Accumulated earnings arising from the first application of inflation accounting on December 31, 2003 balance sheet will not be subject to corporation tax, and similarly accumulated deficits arising from such application will not be deductible for tax purposes. Moreover, accumulated tax loss carryforwards related with 2003 and prior periods will be utilized at their historical (nominal) values in 2004 and future years.

Tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

Dividend income gained from participations is exempt from corporate tax.

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NOTES TO FINANCIAL STATEMENTS (Continued)

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12. INCOME TAXES (continued)

Major components of income tax expense are:

	2003	2002
Income Statement		
Current income tax		
Current income tax charge	5,941,394	18,139,357
Deferred income tax		
Relating to origination and reversal of temporary differences	(346,867)	(174,910)
Relating to reduction in effective tax rate	282,193	-
Provision for taxes	5,876,720	17,964,447
Balance Sheet		
Taxes payable on income	5,941,394	18,139,357
Prepaid taxes	(3,645,314)	(12,669,570)
Income taxes payable	2,296,080	5,469,787

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the Company's effective income tax rate are :

	2003
Profit before provision for taxes	105,009,469
At the effective statutory income tax rate of 30%	31,502,841
Dividend income not subject to tax	(12,489,198)
Gain on sale of securities added into share capital but not subject to tax	(17,123,224)
Disallowable expenses	256,960
Investment allowances	(54,099)
Other effects, primarily related to the restatement effect of certain monetary accounts not subject to tax and different effective tax rate for deferred taxation	3,783,440
Provision for taxes	5,876,720

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NOTES TO FINANCIAL STATEMENTS (Continued)

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12. INCOME TAXES (continued)

Deferred income tax

Deferred income tax relates to the following :

	2003		2002	
	Cumulative Temporary Differences	Deferred Tax Assets / (Liabilities)	Cumulative Temporary Differences	Deferred Tax Assets / (Liabilities)
Technical reserves	-	-	15,488,709	5,111,273
Reserve for employee termination benefits	1,966,997	590,099	1,870,681	617,325
Restatement of property and equipment Valuation of held to maturity investments	2,873,419	(862,026)	(9,171,623)	(3,026,636)
Amortization on receivables	2,707,845	893,589	(201,621)	(66,534)
Provision for receivables	5,578,659	1,840,957	2,727,776	900,167
	2,351,488	705,447	-	-
	15,478,408	3,168,066	10,713,922	3,535,595

Movement of deferred income tax is:

	2003	2002
Balance at beginning of the year	3,535,595	4,396,030
Deferred income tax recognized in the income statement	64,674	174,910
Monetary gain	(432,203)	(1,035,345)
Balance at end of the year	3,168,066	3,535,595

13. SHARE CAPITAL

	2003	2002
Common shares , TL one thousand , par value each Issued and outstanding	153,000,000	67,500,000,000

As of December 31, 2003 and 2002, the Company's registered share capital ceiling is TL 153,000,000 and TL 67,500,000, respectively.

The movement of the share capital (*in numbers and in historical TL*) during December 31, 2003 and 2002 is as follows:

	2003		2002	
	Number	TL	Number	TL
Beginning	67,500,000,000	67,500,000	33,750,000,000	33,750,000
Shares issued in				
- bonus shares issued	85,500,000,000	85,500,000	10,750,000,000	10,750,000
- new shares issued	-	-	23,000,000,000	23,000,000
Ending	153,000,000,000	153,000,000	67,500,000,000	67,500,000

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NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2003

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13. SHARE CAPITAL (continued)

In 2003, the bonus share increase in the statutory accounts has been generated from equity investment revaluation fund amounting to TL 20,895,012, from property and equipment revaluation fund amounting to TL 9,142,000 and from sale of equity investment amounting to TL 55,462,988 (TL 55,810,012 with the purchasing power of TL at December 31, 2003).

The composition of shareholders and their respective % of ownership can be summarized as follows :

	2003		2002	
	Amount	%	Amount	%
H.Ömer Sabancı Holding A.Ş.	87,818,033	57.40	38,743,245	57.40
Publicly Traded	65,181,967	42.60	28,756,755	42.60
Nominal share capital	153,000,000	100.00	67,500,000	100.00
Restatement effect	85,753,347		115,443,335	
	238,753,347		182,943,335	

14. LEGAL RESERVES AND ACCUMULATED PROFITS

Legal Reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the Company's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the Company's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted. As of December 31, 2003, the Company's legal reserves which were included within the legal reserves and accumulated profits balance amount to TL 12,259,345 (2002 – TL 9,761,902) at nominal values.

Per Turkish Commercial Code, the statutory accumulated profits and statutory current year profit are available for distribution subject to the reserve requirements referred to above.

As further explained in Note 2, accumulated profits include undistributable funds at the amount of TL 20,762,106 (2002 – TL 12,704,076) due to earthquake losses to be incurred in the future.

Dividends

Cash dividends declared and authorized in 2003 is as follows (historical terms) :

	2003
Common shares	
1,000 (full TL) per share in 2003	14,225,993

15. EARNINGS PER SHARE

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NOTES TO FINANCIAL STATEMENTS (Continued)

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Basic earnings per share (EPS) is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares (“Bonus Shares”) to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings and revaluation surplus. For the purpose of the EPS calculation, such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Company, are regarded similarly. Accordingly, the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares without consideration through December 31, 2003.

The following reflects the income and share data used in the basic earnings per share computations :

	2003	2002
Net profit attributable to ordinary shareholders for basic earnings per share	99,132,749	18,952,239
Adjusted weighted average number of ordinary shares for basic earnings per share	153,000,000,000	153,000,000,000
Basic earnings per share (TL)	648	124

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

16. RELATED PARTY DISCLOSURES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. For the purpose of these financial statements, all Sabancı Holding entities are referred to as related companies. Related parties also include individuals that are principal owners, management and members of the Board of Directors.

In the course of conducting its business, the Company conducted various business transactions with related parties. The most significant of these transactions are as follows :

	2003	2002
Bank deposits and reverse repurchase transactions in / from		
Akbank branches	39,509,136	55,612,891
Akbank – mutual funds	20,797,809	10,284,931

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NOTES TO FINANCIAL STATEMENTS (Continued)

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16. RELATED PARTY DISCLOSURES (continued)

	2003		2002	
	Due from	Due to	Due from	Due to
Akbank	751,058	-	710,699	-
Toyota Sabancı Otomotiv Sanayi Türkiye A.Ş. (Toyotasa)	205,514	-	147,596	-
Emekli Sandığı	190	-	315	-
Enerjisa A.Ş.	2,235	-	255,073	-
Teknosa İç ve Dış Tic. A.Ş. (Teknosa)	55	-	20,297	-
BNP	58,382	-	405,297	-
Kordsa Kord Bezi Sanayi ve Ticaret A.Ş. (Kordsa)	23,732	-	49,746	-
Sasa Suni ve Sentetik Elyaf Sanayi A.Ş. (Sasa)	85,386	-	81,322	-
Temsa	95,232	-	24,198	-
Marsa Kraft Jacobs Suchard Sabancı İşletmeleri T.A.Ş. (Marsa)	19,938	-	213	-
Bossa Ticaret ve Sanayi İşletmeleri T.A.Ş. (Bossa)	29,994	-	45,523	-
H.Ö. Sabancı Holding A.Ş. (Holding)	113,058	-	36,313	-
İnsa İst. Merlon Naylon San. A.Ş. (İnsa)	410	-	3,954	-
Exsa Export San. A.Ş. (Exsa Export)	-	1,541	568	-
Olmuksa Muvakka Sanayi ve Ticaret A.Ş. (Olmuksa)	-	7,628	3,933	-
Brisa Bridgestone Sabancı Lastik Sanayi ve Ticaret A.Ş. (Brisa)	158,878	-	13,556	-
Yünsa	11,139	-	28,031	-
BNP - Ak Dresdner Bank A.Ş. (BNP Bank)	7,479	4,054	29,371	-
Sapeksa Men. ve Toprak Mah. Tic. A.Ş. (Sapeksa)	-	2,260	605	-
Akkardansa Sanayi ve Ticaret A.Ş. (Akkardansa)	15,474	-	3,289	-
Sakosa Sabancı End. İplik ve Kord Bezi San. ve Tic. A.Ş. (Sakosa)	61,736	-	61,261	-
Oysa İskenderun Çimento San. ve Tic. A.Ş. (Oysa)	4,191	-	-	-
Exsa Export Mam. Sat. ve Ara A.Ş. (Exsa)	499	-	-	1,585
Beksa Çelik Kord Sanayi ve Ticaret A.Ş.	-	544	-	619
	1,644,580	16,027	1,921,160	2,204

During 2003, the Company purchased a building from Hacı Ömer Sabancı Holding at an amount of TL 4,528,155.

Interest income from Akbank for the year ended December 31, 2003 amounted to TL 30,984,276,

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NOTES TO FINANCIAL STATEMENTS (Continued)

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16. RELATED PARTY DISCLOSURES (continued)

	2003	2002
Premium revenue from related parties		
Brisa	1,700,547	1,215,247
Toyotasa	3,315,371	386,829
Temsa	1,069,279	799,924
Sapeksa	722,758	815,689
Enerjisa A.Ş.	1,328,970	1,454,351
Teknosa	-	143,777
Akbank	1,870,809	2,001,818
BNP	414,749	872,108
Kordsa	631,580	761,364
Sasa	2,386,400	2,988,054
Marsa	212,143	480,007
Bossa	795,020	952,824
Holding	272,573	337,157
Exsa	-	134,105
Olmuksa	140,821	150,811
Yünsa	264,448	359,428
Akkardansa	-	167
İnsa	65,916	86,651
Oysa	84,208	78,519
BNP Bank	25,174	56,330
Akçansa	-	91
Emekli Sandığı	1,501	1,332
Sakosa	144,676	143,546
	15,446,943	14,220,129
Dividend income		
Akbank	32,493,355	-
Çimsa	1,920,599	728,288
Akçansa	6,439,321	266,771
Yünsa	261,631	19,893
Dönkasan	-	40
BNP	1,510	237
Ak Yatırım	3,041	7,816
Tursa	1,322,822	-
	42,442,279	1,023,045
Rent expense		
Holding	145,113	270,025
Rent income		
Ak Emeklilik	324,610	308,028
Sabancı Üniversitesi	166,967	158,373
Akbank	6,650	5,133
Akbank-IBM	-	3,465
	498,227	474,999
Payments to board members and key management personnel	718,364	650,265

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NOTES TO FINANCIAL STATEMENTS (Continued)

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17. FINANCIAL RISK MANAGEMENT

Financial Risk Management Objectives and Policies

Credit Risk

Credit risk is the risk that a party to a financial instrument will fail to discharge an obligation and cause other party to incur a financial loss. The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

Interest Rate Risk

Interest rate risk refers to the potential fluctuations in the market value of assets and liabilities as a result of changes in market interest rates. The interest rate risk for fixed-interest securities is controlled by regular, active benchmark-oriented reviews of maturity dates.

Liquidity Risk

Liquidity risk is the risk that can entity will be enable to meet its net funding requirement to mitigate liquidity risk. The Company's policy is maintain sufficient cash and cash equivalents to manage its ability to meet existing and prospective commitments. Any excess cash is invested mostly in time deposits and available for sales securities.

Currency Risk

The insurance activities of the Company and investment securities are conducted mainly in TL, foreign currency denominated assets and liabilities comprise cash at banks and investment securities (Notes 3 and 4) and overdue payables to reinsurance companies (Note 8). Therefore the Company has a limited foreign currency exposure.

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

To the extent relevant and reliable information is available from the financial markets in Turkey, the fair value of the financial instruments of the Company is based on such market data. The fair values of the remaining financial instruments can only be estimated. The estimates presented herein are not necessarily indicative of the amounts the Company could realize in a market exchange.

The following methods and assumptions were used to estimate the fair values of the Company's financial instruments:

18. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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NOTES TO FINANCIAL STATEMENTS (Continued)

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Financial Assets

Balances denominated in foreign currencies are translated at year-end exchange rates.

For cash and deposit with banks, fair value is estimated to approximate carrying value due to their short-term nature. For investments included in "held to maturity" portfolio for which market prices are available, fair value computed based on market prices (see Note 4).

The carrying value of premiums receivable along with related provision for uncollectibility is considered to approximate their fair values.

Financial Liabilities

Carrying values of reinsurer current accounts and premium reserves together with the respective accrued finance costs are considered to approximate their respective fair values.

19. REVENUES AND EXPENSES

	2003	2002
Net premium revenue		
Premiums written	372,344,887	350,997,994
Premiums ceded to reinsurers	(236,792,039)	(229,618,298)
Net premiums written	135,552,848	121,379,696
Unearned premium, net	(7,262,999)	516,145
Net premium revenue	128,289,849	121,895,841
	2003	2002
Net claims		
Claims paid	227,706,526	204,711,785
Reinsurer's share for claims paid	(140,094,086)	(128,858,091)
	87,612,440	75,853,694
Provision for outstanding claims, net	11,575,081	(9,898,636)
Total net claims	99,187,521	65,955,058

19. REVENUES AND EXPENSES (continued)

Aksigorta Anonim Şirketi

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2003

(Currency – In millions of Turkish Lira in equivalent purchasing power at December 31, 2003)

Personnel Expenses

	2003	2002
Wages and salaries	7,546,552	6,726,416
Other social benefits	4,516,458	3,218,937
	12,063,010	9,945,353

Average Number of Employees

	2003	2002
Management	164	142
Personnel	243	233
	407	375

20. COMMITMENTS AND CONTINGENCIES

a) Mortgages and guarantees on assets:

	2003	2002
Mortgages on premises and equipment (in historical terms)	19,705,715	10,864,078
Pledged securities	66,687,227	43,508,244

b) Legal cases :

	2003	2002
Cases against the Company	3,799,000	6,232,700
Cases on behalf of the Company	3,607,315	11,349,649

The Company is constantly faced with legal disputes, claims and complaints which in most cases stem from normal insurance operations. There is no income / expense provision for those revocable cases against / on behalf of the Company due to the uncertainty related with the outcome of these cases.

c) The Company is contingently liable with respect to reinsurance which would become an actual liability to the extent that any reinsuring company fails to meet its obligations to the Company. In the opinion of management no provision is necessary for this remote contingency.

21 SUBSEQUENT EVENTS

a) The maximum payment for employee termination benefits per year of employment is increased to TL 1,485 as at July 1, 2004.