

An Assessment of Independent Audit, Internal Control System and Internal Audit Activities by the Board of Directors

Independent Auditor

Periodic financial reports are prepared within the framework of current laws and regulations and insurance accounting standards in such a way as to show the Company's true financial standing. Such reports are independently audited and publicly disclosed as prescribed by law.

The Company's independent auditor is rotated at regular intervals. In this respect, the Company abides by the provisions of the "Regulation on Independent Auditing in Insurance, Reinsurance and Pension Companies" dated 12 July 2008 and numbered 26934.

External audits at our Company are performed on an entirely independent basis and its external auditors operate completely within the framework of truthfulness, professional honesty, and candor and without any involvement in a conflict of interest whatsoever. No payments are made to any independent auditor in our employ other than such fees as are reasonable in light of existing market conditions.

The factors that strengthen the independence of firms from which we obtain independent auditing services are: the existence of an Audit Committee, the possession of an effective accounting and internal audit system, and adherence to rules of ethics that give importance to truthful public disclosure of company-related matters.

The Board of Internal Audit

The Board of Internal Audit carries out its activities within the frame of the Regulation on the Internal Systems of Insurance, Reinsurance and Pension Companies that was published in the Official Gazette issue 26913 dated 21 June 2008. The Board reports directly to the Board of Directors and is organized independently in administrative terms.

The Internal Audit Plan and Schedule of the Board of Internal Audit is developed within the frame of the Regulation on the Internal Systems of Insurance, Reinsurance and Pension Companies, and enters into force upon its approval by the Board of Directors. In this context, the Board of Internal Audit reports on all Headquarters units, district sales offices and branches at least once a year, and on all agencies at least once in every three years. In addition to these auditing activities, investigations and reviews are conducted, as well as process audits.

In 2018, 22 headquarters units, 11 district sales offices and 1 branch adding up to 34 units in total were audited. In addition, 3 process audit and 2 investigation reports were issued. Auditing of agencies continued during 2018, and 117 agencies were audited in this frame. Reports resulting from audits have been submitted to the Board of Directors.

In 2018, the Board of Internal Audit was staffed by 9 inspectors and 5 assistant inspectors. To support their professional development and to expand their professional knowledge, the Company facilitated participation of the members of the Board of Internal Audit in various training programs. Revisions and updates are made as necessary to ensure alignment of the auditing activities and the resulting audit reports with the "International Standards for the Professional Practice of Internal Auditing" and current conditions.

The Board of Internal Audit has made it a mission to contribute value to the Company's activities, while increasing efficiency and productivity, as well as to provide independent and objective assurance to the Company's Senior Management that the Company's activities are carried out in accordance with the Law, other applicable legislation, internal strategies and policies. In addition, the Board carries on with its activities to train and gear up the managers for the Company in the long run through investments made into the human resource.

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Risk Management and Internal Control Department

Risk Management and Internal Control Department conducts its activities within the frame of the "Regulation on the Internal Systems of Insurance, Reinsurance and Pension Companies" published in the Official Gazette issue 26913 dated 21 June 2008. The Department reports directly to the CEO.

It is intended to have a control system which enables due and effective management, mitigation and control of the risks involved in the Company's activities and which is structured to cover all operations of the Company. The system is designed to encompass the principles, standards, legislation, methods, procedures and guidelines that all employees at any level are responsible for fully, accurately and efficiently abiding by and implementing, as well as risk mitigating systems, facilities, mechanisms and all similar elements. In this framework, operational activities and risk elements at the Company are evaluated and priority is given to compliance efforts. New products and new implementations put on the market are reviewed, and subjected to risk assessments and compliance checks.

Efforts are spent to make sure that the internal control system that make up the control functions of the Company and encompasses all the units is kept in compliance with the legislation and standards, and efficient with respect to its structure and operation. The basic strategy turned towards these goals is to conduct internal control activities independently, productively and effectively based on a risk-focused approach and within the frame of applicable legislation and internationally accepted principles and standards.

The control system aimed at the activities carried out by the Company units basically consists of the following: compliance and conformity controls, tangible asset controls, review of adherence to limits set by the Company and tracking limit overruns, controls pertaining to the approval and authorization system, inquiry and reconciliation controls, controls for information and communication systems, controls for the financial reporting systems, and controls for communication channels.

Reports covering internal control activities and risk monitoring, assessment and management activities is submitted to the Board of Directors at regular intervals.

The Department had 7 members during 2018. The employees were provided with training opportunities to enhance their professional development and expand their knowledge.