Risk Management Policies and an Assessment by the Board of Directors

Risk management policies describe the key principles and norms related to the risk management system and processes. The requirements under the policy are set by the Board of Directors, the approval of which is required for any revisions. At a minimum, the risk management system and processes must be introduced and the risk limits set must be adhered to.

The Board of Directors is responsible for setting the risk management principles and norms that will be implemented across the Company; updating the risk policies in connection with the changes in the circumstances governing operations; establishing and operating effective risk management system and processes; monitoring the Company's risk level; establishing risk limits and checking actualizations versus these limits, and introducing necessary measures.

Risk limits that are set for the purpose of measuring, evaluating and monitoring the risk levels are enforced based on a Board of Directors decision as and when deemed necessary and important.

The key considerations in setting the risk limits are the risk measurement results and the Company's risk appetite.

Separate from risk limits, indicators of developments and occurrences that will negatively impact the risk level are detected and monitored as early warning signals.

Risk Management Policies Implemented on the Basis of Types of Risks

The Risk Management Policy is pivotal for supporting and developing the Company's corporate structure. The policy is, in essence, intended to set the key principles and norms related to the risk management system and processes; to introduce the risk management system and processes specified in the policy, and to achieve conformity with the risk limits set.

The activities falling under the Risk Management Policy are carried out within the framework set by the insurance and private pension legislation, and other legislation governing the Company. The Company's risk exposure is individually monitored, assessed and controlled under the following categories: insurance underwriting and pension branch risk, credit risk, market risk, operational risk, assets and liabilities management risk, structural interest rate risk, liquidity risk, property investment risk, capital investment risk and reputation risk.

Risk Management and Internal Control Department is responsible for describing, measuring, analyzing, monitoring and reporting risks. Other responsibilities of the department include following up the developments in risk management, improving the methods employed, and submitting reports to the Board of Directors on required legal reporting, notification and follow-up activities. In addition, the department also acts as the Compliance Unit with regard to the enforcement of the Law no 5549 on Prevention of Laundering Proceeds from Crime and related regulations.

Insurance Underwriting and Pension Branch Risk Policy

Insurance underwriting and pension branch risk refers, with respect to the insurance branch, to the risk that might arise from failure to correctly and effectively employ the underwriting technique while providing coverage for probable incidents; and with respect to the private pension branch, to the risk of sustaining loss due to the generated revenues that fall short of the costs incurred.

In insurance and pension branch products, the basic principle is to establish the actuarial structure in line with technical profit forecasts within the frame of precautionary principle. Along this line, technical income and expenses for insurance and pension branches are set within the frame of the principles defined in insurance and private pension legislation, taking into consideration the Company's risk appetite.

The management of insurance underwriting risk is based on the principle of composing a low-risk portfolio of policyholders. To this end, the policyholder portfolio is effectively monitored. The Company's income and risk limits are regularly followed-up to determine whether they are at the level to cover the risk underwritten by the Company.

Risk Management Policies and an Assessment by the Board of Directors

Assets and Liabilities Risk Policy

Under the assets and liabilities risk that expresses all financial risks apart from the credit risk which stem from the Company's assets and liabilities, structural interest rate risk, liquidity risk, capital investment risk and real estate investment risk are considered.

In the composition of the Company's assets and liabilities, return on asset items and cost of liability items, cashing-in and reinvestment times are taken into account. The Company's needs, alternative borrowing sources, profitability of the lending and lending facilities are taken into account when identifying and utilizing the sources for funding assets.

The basic principle is to ensure that the transactions carried out in the money and capital markets are "well diversified" so as to avoid any concentration in any investment instrument, maturity, currency, interest type and other similar parameters and in view of the risk level created thereby.

When managing the liquidity risk, the Company composes its portfolio in a structure that is compatible with the functions of deriving profit on the portfolio and of market risk management. Hence, key considerations include the maturity distribution of the portfolio composed as such, its having a profit-focus while uncompromising from liquidity requirements, and the risk versus return balance.

Market risk limits are set by the Board of Directors in accordance with the Company's risk appetite. Adherence to limits is constantly monitored by the Risk Management and Internal Control Department and related executive units. In the event of limit overruns, the violation and the reasons therefor are reported to the Board of Directors, accompanied by the executive units' comments. Action to be taken in the event of a limit overrun is decided by the Board of Directors.

Careful consideration is given to the creditworthiness of those issuing financial instruments that pose a market risk. Basically, the issuer of the financial instrument should have been assigned an "investment grade" in terms of credit risk rating.

Within the frame of structural interest rate risk, the exposure stemming from the interest sensitivity of all of the Company's assets, liabilities, income and expenses are followed up separately from the interest risk that is addressed under the market risk.

Decisions on capital investments (new investments, increasing/decreasing the investment level or withdrawal from an investment) are made by the Company's Board of Directors. Capital investments are managed based on a portfolio approach, observing the balance between the risk undertaken and the return generated.

Credit Risk Policy

Credit Risk refers to the probability of loss the Company might sustain due to the failure of indebted parties (agencies, reinsurers, etc.) to the Company to fulfill the contractual requirements and their failure to satisfy their obligations in part or in whole.

The basic principle is to manage counterparty transactions, which are of a nature to give rise to credit risk, so as not to create concentration, and in a well-diversified manner by keeping an eye on the risk level created. To this end, the credit risk exposure is monitored by way of various criteria including counterparty, collateral, sector, maturity and currency.

The minimum scope of the credit risk evaluation process covers monitoring, and reporting on, the risk levels of insurance brokers, reinsurers, companies in which shareholding stakes are acquired, and banks/financial institutions from which financial services are procured.

Early detection and definition of the issues are essential for effective credit risk management.

Operational Risk Policy

Operational risk is the risk of loss that might result from inadequate or inoperational internal processes, people, systems or external factors. The basic principle is to consider operational risks with respect to their likelihood and the impact they would create in the event they occurred, and to take necessary countermeasures.

When managing operational risk, controls are designed to eliminate or mitigate the risk of sustaining loss due to the risk exposure of the activities. Risk Management and Internal Control Department monitors, and reports on, the efficiency and adequacy of the controls, as well as the enforcement of the action plans adopted.

Reputation Risk Policy

Reputation risk refers to potential loss that may result from loss of confidence in the Company or injury to the Company's reputation stemming from the negative thoughts of various parties including current or potential customers, shareholders, competitors and regulatory authorities about the Company, or from regulatory non-compliance.

The principal elements of reputation risk (financial performance, service continuity, customer satisfaction, regulatory compliance, corporate culture and corporate governance understanding, organization and conduct, employee competence, etc.) are taken individually and as a whole. Appropriate systems and controls are created to efficiently manage the elements that constitute a risk.

Auditing of Risk Management System and Processes

The risk management system and processes are audited by the Company's Board of Internal Audit. The Board of Directors determines the principles relating to execution of action plans for the conduct of the audit, the reporting of audit results, and remedy of errors and irregularities identified in the audits.

The Company's risk management and assessment process consists of providing information to the Board of Directors on topics such as:

- Adequacy of the Company's risk management system and processes,
- Compliance with limits,
- Accuracy and quality of the data used in the risk management process,
- Accuracy and quality of limit violation reports,
- Compliance with the policy and implementation procedures.

The process also includes laying down proposals regarding the possible measures that can be adopted, as well as reporting stages.