Risk Management and Internal Control Activities

RISK MANAGEMENT POLICY

The policies established considering the risks that our company is exposed to are regularly reviewed in parallel with the changes in market conditions and the provisions of the relevant legislation. The key risks of the Company are monitored within the framework of the risk definitions given below:

Strategic Risk: It refers to the possibility of incurring loss in consequence of seasonal or technological changes across the business line and industry, depending on the preferred practices and decisions.

Asset Risk: Companies try to perform their activities with the assets acquired through debts and equity capital; however, these assets may be exposed to various risks, especially collection risk and market risk. Asset Risk refers to the risk that the Company fails to carry out its activities due to depreciation of asset items in the Company's balance sheet as a result of occurrence of one or more risk(s).

Underwriting Risk: As there are risks arising from signed insurance contracts, the said risks may be exemplified as a risk concentration arising from not selecting the insured risks properly, not determining the level of insurance premiums at which potential damages are covered in the future and non-diversifiable risks.

Provision for Outstanding Claims Risk: It refers to the risk that the Company fails to fulfill its liabilities for outstanding claims' provision in retention.

Reassurance Risk: It refers to the risk that occurs through the transfer of insurance risk to reinsurers.

Currency Risk: It refers to the risk that changes in exchange rates negatively affect the Company's financial statements and cash flow.

Excessive Premium Increase Risk: It refers to the risk corresponding to the excessive portion when the Company's annual increase rate in written premiums (gross) on the basis of premiums is above 20% of the industry's increase rate.

Counter-Party Risk (Agent, Reinsurer): It refers to the possibility of understanding that one of the parties carrying out the transaction will fail to fulfil its liability during the transaction period, and incurring loss in parallel.

Liquidity Risk: It refers to the risk that the Company fails to fulfill its liabilities due to lack of cash on hand or cash inflow with levels and qualities to cover the cash outflow in full and on time in consequence of the imbalance in the organization's cash flow.

Market Risk: It refers to the possibility of loss that the organization may incur due to interest risk and currency risk in the values of positions of the financial instruments in its portfolio, or in the values of all assets and liabilities.

Operational Risk: Operational risk is the risk of direct or indirect losses resulting from inadequate and ineffective internal processes, employees and systems or external events. It refers to the possibility of loss that may arise from unnoticed errors and irregularities due to disruptions in internal controls, mismanagement, errors and disruptions in information technology systems, disasters such as earthquake, fire and flood, or terrorist attacks. Human Risk, Process Risk, System Risk and External Factors Risk are subjected to assessment under Operational Risk.