

VHV REASÜRANS ANONİM ŞİRKETİ
BOARD OF DIRECTORS' ACTIVITY REPORT FOR THE YEAR 2019

Dear Shareholders,

We hereby submit the board of directors' report regarding our activities for the year 2019 for your examination and approval.

1. GENERAL INFORMATION

Company's	
Trade Name	: VHV Reasürans Anonim Şirketi
Trade Registry No.	: 979611
Registered Office	: Büyükdere Caddesi No. 127 Astoria Kuleler B Blok Kat. 11 Esentepe Şişli İstanbul
Website	: www.vhvre.com
Branch Office	: -
Executives and number of employees	: Thomas Horst Voigt – Chairman of the Board of Directors Dietrich Werner – Vice Chairman of the Board of Directors Maximilian Georg Ferdinand Stahl – Board Member Dr. Gülen Özaktürk - Board Member Fatih Ağacık – Board Member Hasan Okan Utkueri – Board Member

1.1. Scope of Activity

The main purpose of the Company is to operate in reinsurance field of business. The Company can provide reinsurance services inside and outside Turkey in accordance with the Company's articles of association, unless it is legally restricted.

1.2. Statements regarding Capital Structure, Changes within the Fiscal Period, Privileged Shares and Voting Rights

The Company was established with the share capital of TRY 100,000 divided into 100,000 shares; each having value of TRY 1.00 and share values and the share capital was fully subscribed and paid by the Company's sole shareholder VHV Allgemeine Versicherung AG in cash.

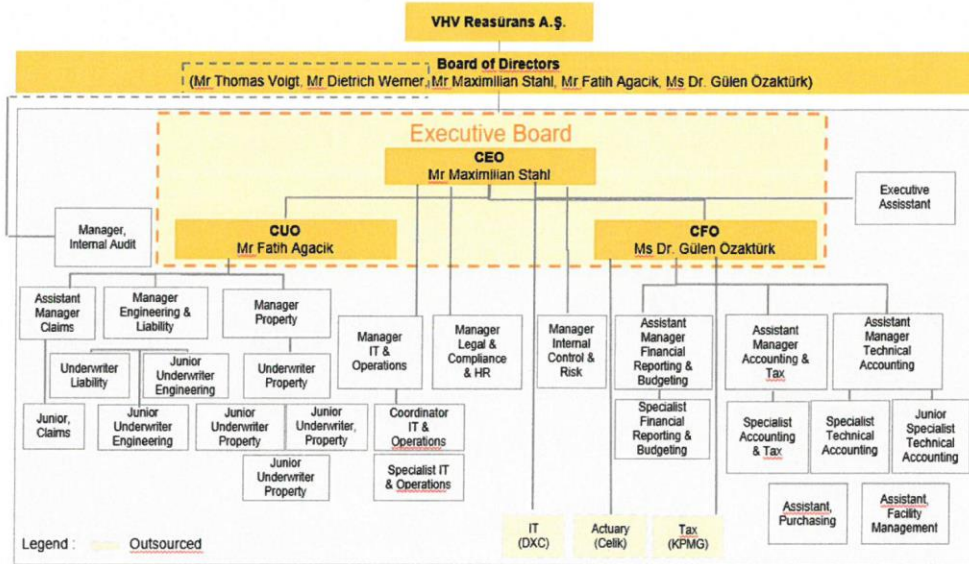
The Company's share capital was increased to TRY 65.955.271,89 at the Extraordinary General Assembly Meeting held on 5 January 2016 and registered with İstanbul Trade Registry on 12 February 2016. Increased amount of share capital is fully subscribed and paid by the Company's sole shareholder VHV Allgemeine Versicherung AG in cash. The shareholding structure of the Company did not change following this capital increase.

1.3. Shareholding structure

Our Company's shareholding structure is as follows as of 31 December 2019:

Shareholder	Number of Shares	Value of the Shares (TRY)	Rate (%)
VHV Allgemeine Versicherung AG	65.955.271	65.955.271,89	100
TOTAL	65.955.271	65.955.271,89	100

1.4. Organizational Structure



1.5. Board of Directors, Executives and Number of Employees

Our Company's board members are: Thomas Horst Voigt, Dietrich Werner, Maximilian Georg Ferdinand Stahl, Dr. Gülen Özaktürk, Fatih Ağacık and Hasan Okan Utkueri and its executives are: Maximilian Stahl, Dr. Gülen Özaktürk and Fatih Ağacık.

Our Company's number of employees is 30 as of the end of 2019.

1.6. Auditors

Board of Directors appointed Güney Bağımsız Denetim and Serbest Muhasebeci Mali Müşavirlik A.S. as independent auditor at BOD meeting held on 14 February 2019 with BOD decision number 2019/01.

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ÖZAKTÜRK

1.7. Prohibition on Entering into Transaction with the Company

N/A

2. FINANCIAL RIGHTS PROVIDED TO MANAGING BODY MEMBERS AND THE EXECUTIVES

2.1. Total amount of financial benefits provided such as attendance fee, premium, bonus and share profit

The total salary payment amount paid to the executive is 874.544 TL as of 31 December 2019.

2.2. Information regarding the total amount of subsidies, journey, accommodation and representation costs, real and pecuniary opportunities, insurances and warranties so on

N/A

3. RESEARCH AND DEVELOPMENT WORKS OF THE COMPANY

N/A

4. ACTIVITIES OF THE COMPANY AND MAJOR DEVELOPMENTS REGARDING THE ACTIVITIES

4.1. Information about the investments made by the company on the related financial year

The Company made several investments for securing company activities and assuring continuity of such activities. Having a state of the art technical infrastructure in the field of Information Technologies, the company established the current Insurance – Reinsurance program (SICS), which is recognized by the leading players of international reinsurance market, and SAP system, which is a corporate resource-planning program, and it successfully implemented the integration project between these systems. Besides, the company invested in IFRS 17 project and provided various training opportunities in areas involving the overall sector and areas related to professions of its personnel for improving competency and efficiency of its personnel.

4.2. Information regarding internal control system and internal audit activities together with Board of Directors' opinion in this matter,

The Company has decided to appoint the persons foreseen by the legislation to form internal systems consisting of Internal Control, Internal Audit, Risk Management and Compliance units with the decision of Board of Directors.



With the decision of the Board of Directors, Nihan Şener was appointed as Internal Control & Risk Manager; Dietrich Werner has been appointed as a member of the Board of Directors for Internal Systems and Emel Yücesoy has been appointed as Internal Auditor of the Company. The authority for compliance function has been transferred to Maximilian Georg Ferdinand Stahl and Ayşe Özlenen Çiğ has been appointed as the Compliance Manager.

Internal control is of great importance as it is a tool used by management to ensure that the management function is executed.

The basic philosophy of the existence of internal control is based on the idea that employees act per their own interests rather than Company interests.

The absence and / or ineffectiveness of internal control function leads to the loss of business assets, to management making incomplete or incorrect decisions, abuses and various losses (customer, profitability, efficiency, etc.).

In addition to ensuring that these threats are minimized, internal control also creates opportunities for managers to measure their performance, make decisions, and evaluate transactions.

The internal control function is a system of measures that are compatible and support each other.

Some of these controls are developed based on business processes, while others operate independently of business processes.

Consequently, internal control includes all measures and methods adopted and implemented to protect the organization's plan and Company's assets, to verify the accuracy and reliability of accounting information, to increase the efficiency of its activities, and to encourage its commitment to predetermined management policies.

2019 Internal Control Plan has been confirmed in the Executive Committee meeting dated 14.02.2019 and the annual Risk Report has been approved by the Executive Committee members as of 21.11.2019.

2019 Internal Audit Plan has been approved as of 14.02.2019 by the Board of Directors and the Internal Audit Reports approved during 2019 are as follows:

14.02.2019

- Internal Audit Information Note Compliance

17.07.2019

- Internal Audit Report on Expenses
- Internal Audit Report on Human Resources

21.11.2019

- Internal Audit Report on Budgeting
- Internal Audit Examination Report on Business Plan

4.3. Information regarding direct or indirect affiliates of the Company and share rates,
N/A

4.4. Information regarding the Company's shares acquired by itself

N/A

4.5. Statements regarding private and government audit executed in the fiscal year,

The report dated 25.04.2019 and numbered 2 prepared based on the audit conducted in accordance with the approval dated 15.10.2018 and numbered 24601 issued by the Insurance Supervisory Board of the Ministry of Treasury and Finance within the scope of the internal systems of the company resulted with one finding, which was eliminated on 01.11.2019 and the Insurance Supervisory Board was informed accordingly.

4.6. Information regarding lawsuits brought against the Company and which may threaten the financial situation and activities of the Company and their potential results.

N/A

4.7. Explanations regarding administrative and judicial sanctions about the Company and the board of director's members in relation to the practices against the legislation.

N/A

4.8. Information and evaluation regarding whether the aims determined in the previous terms are accomplished and the general assembly resolutions are executed or not; If the aims are not accomplished or the resolutions are not executed, information and evaluation regarding their reasons,

N/A

4.9. If an extraordinary general assembly meeting is held within the fiscal year, information with regard to the extraordinary general assembly including date of the meeting, resolutions held in the meeting and other transactions made in relation with this meeting,

An Extraordinary General Assembly Meeting was held on 21.08.2019 and it is decided to distribute dividends amounting to 14.684.206 TL until 30.08.2019 to VHV Allgemeine Versicherung AG, as the sole shareholder, and the related amount was paid on 21.08.2019.

- 4.10. Information regarding expenses of the company made within the fiscal year within the scope of donations and contributions and social responsibility projects,

N/A

- 4.11. If the company is subject to an enterprise system; legal transactions made with the holding company, with another company affiliated to the holding company, with the guidance of the holding company in favor of the holding company or in favor of another company affiliated to the holding company and all other precautions taken or avoided to be taken in favor of the holding company or another company affiliated to the holding company within the past activity year,

N/A

- 4.12. If the company is subject to an enterprise system; substituted performances, losses and equalization of losses that took place after the legal transactions stated under article (i) or after that the abovementioned precautions have been taken or avoided to be taken.

N/A

5. FINANCIAL SITUATION

- 5.1. Analysis and evaluation of financial position and activity results by the managing body; degree of implementing planned activities and the company's position against predetermined strategic goals,

VHV Reasürans A.Ş. operated full-time in 2019 and followed a successful financial policy on the related period. This successful policy is based on stable and strong financial infrastructure provided by VHV Group that directly and indirectly controls the capital of VHV Reasürans A.Ş. and strict protection policy implemented by the Company in its operations and its advanced information technologies infrastructure. A review of the Company's financial statements as of 2019 year-end confirms that our assets are worth 214.044.809 TL and our liabilities are worth 123.387.036 TL. The paid-up capital of VHV Reasürans A.Ş. is TRY 65.955.272 and this capital is entirely cash capital.

Premium Production and Profitability

VHV Reasürans A.Ş. produced premium worth 94.421.032 TL as of 31.12.2019 (2018: TRY 64.137.186 TL). Besides, the amount of gross earned premium was 84.753.734 TL as of 2019 year-end (2018: 52.586.717 TL). The targeted premium production and gross earned premium figures of the Company were respectively 86.200.759 TL and 78.971.215 TL for the related period. VHV Reasürans A.Ş. gained commercial profit of 7.906.127 TL (2018: 29.516.343 TL) at the end of 2019 and the abovementioned amount of profit exceeded the figure budgeted for the related financial period. If we bear in mind the correlation between the financial goals and actual figures of the Company, we can say that the company had a successful operating period and realized its goals.

Ability to Pay Indemnities

Our company has paid a damage amount of 12.523.557 TL (2018: 5.084.533 TL) as of 2019 year-end. Besides, our company has financial position that can cover damage payments in 2020 operating year and on following periods thanks to its financial structure and technical reserves.

Insurance Coverage Amounts offered for branches

Details of coverage amounts offered by the Company in 2019 are given below branch by branch:

	31 December 2019	31 December 2018
Facultative earthquake	51.059.164.148	39.841.420.039
Fire	31.020.944.125	22.097.865.480
Construction	6.609.366.402	7.153.429.496
Machinery breakdown	7.606.846.450	5.430.069.852
Loss of profits	6.723.711.395	4.522.553.148
Goods	3.642.254.409	926.017.338
Electronic devices	1.560.327.225	1.118.188.098
Assembly	546.164.977	1.000.563.570
Third party financial liability	332.582.390	506.780.219
Professional liability	359.513.142	130.728.650
Employer's Liability	228.914	-
Total	109.461.163.577	82.727.615.890

5.2. Information about the yearly sales, efficiency, income generation capacity, profitability and debt / equity ratio of the company in comparison to the previous years and information about other facts giving an overall outlook of the company operations and future expectations,

Premium production, profitability and debt / equity ratios of VHV Reasürans A.Ş. were as follows within the operating year of 2019.

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	2019	2018
Premium Production	94.421.032	64.137.856
Period Profit / Loss	7.906.127	29.516.343
Period Profit, Tax and Legal Liabilities	-1.795.210	-6.493.595
Net Profit / Loss for the Period	6.110.917	23.022.748
Profitability Ratio	6,47%	35,89%
Debt / Equity Capital Ratio	136,10%	52,92%

5.3. Determining whether the company capital is uncovered or whether the company is in debt and evaluation of the managing body,

According to the "Regulation on Measurement and Assessment of Capital Requirements of Insurance and Reinsurance Companies and Pension Companies", which was published by the Turkish Prime Ministry Undersecretariat of Treasury, the required equity capital amount is 41.870.166 TL as of 31.12.2019 (31 December 2018: 31.605.427 TL) based on the calculations made by the Company. The equity capital, accepted pursuant to the related regulations of the Company as of 31 December 2019, is 91.629.565 TL (31 December 2018: 99.738.540 TL) and it is more than the amount of required equity capital. Accordingly, the capital of VHV Reasürans A.Ş. is covered and the company is not in debt, the excess of equity amount is 49.759.399 TL as of 31.12.2019 (31 December 2018: 58.156.264 TL).

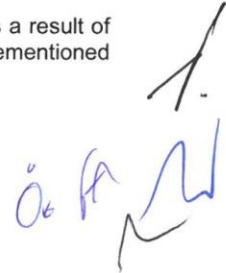
5.4. Measures planned for improving the company's financial structure of the company, if any,

For determining the measures to be taken for improving the financial structure of the company, VHV Reasürans A.Ş. follows closely sector and economic developments, analyzes risks in detail by adopting a risk driven approach and, accordingly, the Company follows a reinsurance policy based on protection with a conservative approach. Besides, the company receives financial consultancy service from Wave Asset Management operating within the organizational structure of VHV Group.

5.5. Information about the dividend distribution policy and if dividend is not to be distributed, the related reasons and suggestions on using the retained earnings

An Extraordinary General Assembly Meeting was held on 21.08.2019 and it is decided to distribute dividends amounting to 14.684.206 TL until 30.08.2019 to VHV Allgemeine Versicherung AG, as the sole shareholder, and the related amount was paid on 21.08.2019.

VHV Reasürans A.Ş. earned commercial profit amounting to 7.906.127 TL as a result of its operations in 2019. The dividend distribution policy regarding the abovementioned



profit shall be determined with a resolution to be made by the General Assembly meeting to be held by the Company regarding the year 2019.

6. RISKS AND EVALUATION OF THE MANAGING BODY

6.1. Information regarding the risk management policy of the company to be applied for the anticipated risks, if any,

In risk policies and their implementation:

- The regular information of the Board of Directors and top management concerning the risk types in activities in relation to the developments and changes in company activities, and how they appear,
- The definition, quantification and monitoring and checks of the risks in the company's basic activities as required, and the determination of the policies and risk limits in conformity with the company's goals and objectives and the principle of the substantiality of its financial body,
- The regular review of risk limits in accordance with the changes in the company's strategies, and its submission for the approval of the Board of Directors,
- Presenting all risks, prior to starting a new activity or commissioning a new product, that may result from this activity or product, and assessing them, and making sure the infrastructure and internal controls required for the management of the risks in question are carried out,
- Are generally under the responsibility of all first-degree signatory employees in accordance with the company's hierarchical structure in addition to the existing job descriptions.

6.2. Studies and reports of the early detection and management of the risk committee, if established

The Company's Risk Committee function is governed by the Executive Committee and reviews the periodic Risk Reports of the Internal Systems on a semi-annually basis and takes necessary measures.

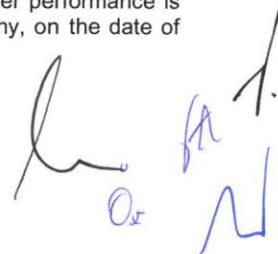
The measures to be taken in case the risks are considered as "high" are determined by the Board of Directors.

6.3. Prospective risks regarding sales, efficiency, income generation capacity, profitableness, debt/equity capital ratio and other subjects.

The capital adequacy tables calculated periodically throughout the year and Solvency II reports are used to measure the productivity and the risks of the capital held by the Company and the necessary measures are presented to the Executive Board by the Executive Committee.

7. CONCLUSION

Under terms and conditions being known to us, an appropriate counter performance is provided in return for each legal transaction with the Holding Company, on the date of



legal transactions stated on annual affiliation report. There is no taken or avoided to be taken measures and there is no incurred loss.

As a result of the examination of the Company's financial transactions with the Holding Company pursuant to Article 199 of the Code, it has been understood that all transactions of the Company are made on an arm's length basis and in compliance with the current market conditions and current market rates as of the transaction dates.

8. OTHER MATTERS

N/A

Kind Regards,



**Chairman of the
Board of Directors**
Thomas Horst Voigt



**Vice Chairman of the
Board of Directors**
Dietrich Werner



**Member of the
Board of Directors**
Maximilian Georg
Ferdinand Stahl



**Member of the
Board of Directors**
Dr. Gülen Özaktürk



**Member of the
Board of Directors**
Fatih Ağacık