

**VHV REASÜRANS ANONİM ŞİRKETİ**  
**BOARD OF DIRECTORS' ACTIVITY REPORT FOR THE YEAR 2016**

**Dear Shareholders,**

We hereby submit the board of directors' report regarding our activities for the year 2016 for your examination and approval.

**1. GENERAL INFORMATION**

<b>Company's</b>	
Trade Name	: <b>VHV Reasürans Anonim Şirketi</b>
Trade Registry No.	: 979611
Registered Office	: Büyükdere Caddesi No. 127 Astoria Kuleler B Blok Kat. 11 Esentepe Şişli İstanbul
Website	: <a href="http://www.vhvre.com">www.vhvre.com</a>
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 Özden Özaktürk - Board Member Fatih Ağacık – Board Member Ahmet Ersagun Yücel – Board Member

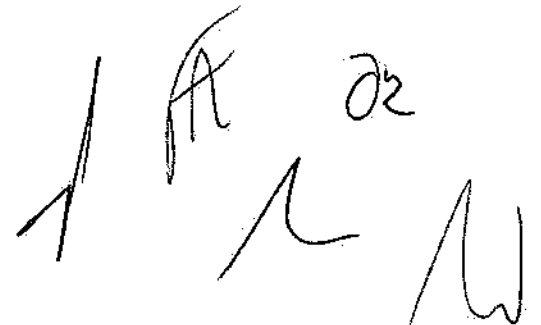
**1.1. Scope of Activity**

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.

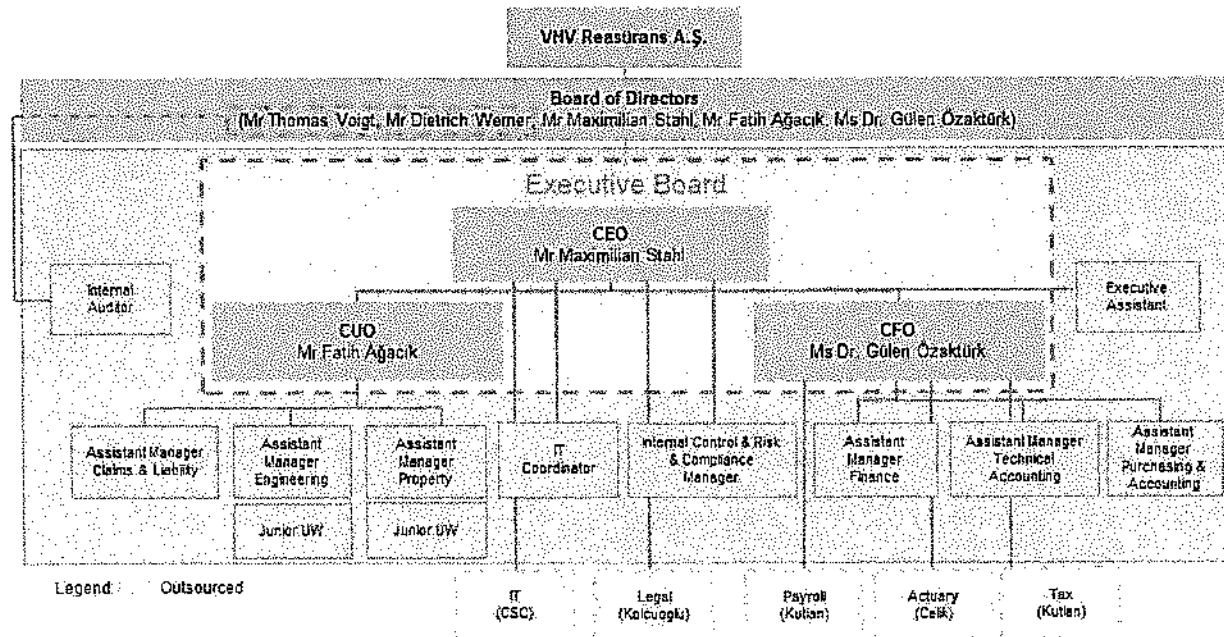


### 1.3. Shareholding structure

Our Company's shareholding structure is as follows as of 31 December 2016:

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 Ahmet Ersagun Yücel and its executives are: Maximilian Stahl, Dr. Gülen Özden Özaktürk and Fatih Ağacık.

Our Company's number of employees is 17 as of the end of 2016 (Intern and Office Assistant are included).

### 1.6. Auditors

At the Extraordinary General Assembly Meeting held on 1 August 2016, the Company appointed Akis Bağımsız Denetim and Serbest Muhasebeci Mali Müşavirlik A.Ş. as independent auditor. No changes will be made to the auditor firm for the year 2017.

### 1.7. Prohibition on Entering into Transaction with the Company

N/A

Handwritten signatures and initials: A, FA, al, K/W

**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 TRY 467.709 as of 31 December 2016.

**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 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 and Risk Management units with the decision of Board of Directors dated 16.02.2016.

With the decision of the Board of Directors dated May 13, 2016, Nihan Şener was appointed as Internal Control & Risk Management & Compliance Manager; Dietrich Werner has been appointed as a member of the Board of Directors for Internal Systems. With the decision of the Board of Directors dated 29.08.2016, Emel Yücesoy was appointed as Internal Auditor of the Company.

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

Handwritten signatures and initials at the bottom right of the page. There are three distinct marks: a large, stylized signature on the left, a set of initials 'FA' in the middle, and another set of initials 'DZ' with a signature below it on the right.

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.

**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,**

N/A

**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

1. FA 02  
NW

- 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,

Extraordinary General Assembly Meetings were held on 03.02.2016 and 08.08.2016.

Decisions taken at meetings:

- Increase the company's capital
- Assignment of an independent auditor.

- 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

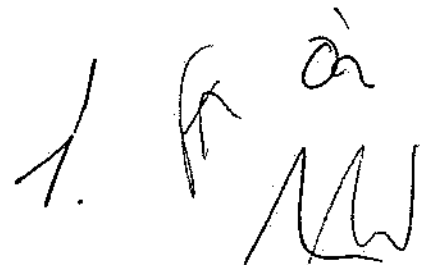
- 4.12. If the company is subject to an enterprise system; substituted performances, losses and equalization of losses that took place after the legal transactions stated under article (i) or after that the abovementioned precautions have been taken or avoided to be taken.

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 in 6-month period of 2016 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 2016 year-end confirms that our assets are worth TRY 86.538.768 and our liabilities are worth TRY 20.631.525. The paid up capital of VHV Reasürans A.Ş. is TRY 65.955.272 and this capital is entirely cash capital.

Handwritten signatures and initials in black ink, including a large '1.', a stylized 'F', and a signature that appears to be 'an' followed by a large 'W'.

### Premium Production and Profitability

VHV Reasürans A.Ş. commenced operations on 01.07.2016 and produced premium worth TRY 13.070.294 in the six-month period (2015: none). Besides, the amount of gross earned premium was TRY 2.107.933 as of 2016 year-end (2015: None). The targeted premium production and gross earned premium figures of the Company were respectively TRY 8.999.000 and 2.118.000 for the related period. VHV Reasürans A.Ş. earned commercial profit of TRY 4.881.879 at the end of 2016 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 does not have any paid damage file as of 2016 year-end. Besides, our company has financial position that is capable of covering damage payments in 2017 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 2016 are given below branch by branch:

	31 December 2016	31 December 2015
Fire	4.962.610.492	-
Loss of profits	996.964.535	-
Third party financial liability	30.898.955	-
Facultative Earthquake	7.913.489.101	-
Machinery Breakdown	1.449.804.728	-
Assembly	141.717.882	-
Construction	562.425.583	-
Electronic Devices	185.907.917	-
<b>Total</b>	<b>16.243.819.193</b>	<b>-</b>

1. FA 02  
AW

- 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 2016.

	2016	2015
Premium Production	13.070.294	-
Period Profit / Loss	5.112.063	-
Period Profit, Tax and Legal Liabilities	-230.184	-
Net Profit / Loss for the Period	4.881.879	-
Profitability Ratio	37,35%	-
Debt / Equity Capital Ratio	31,30%	-

- 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 TRY 10.842.892 as of 31.12.2016 (31 December 2015: None) based on the calculations made by the Company. The equity capital, accepted pursuant to the related regulations of the Company as of 31 December 2016, is TRY 66.400.912 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. Nevertheless, if deemed necessary by the Company, the Company shall do necessary attempts for supporting the capital in parallel to the company operations planned for future periods.

- 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

VHV Reasürans A.Ş. earned commercial profit amounting to TRY 4.881.879,00 as a result of its operations in 2016. 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 in 2017.

Handwritten signatures and initials: "1. FA", "D2", and a large "W" signature.

## **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, profitability, 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.

Handwritten signature and initials, possibly "J. A." and "D2", with a large stylized flourish.



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  
Thomas Horst Voigt

Vice Chairman of the Board  
Dietrich Werner

Member of the Board  
Maximilian Georg Ferdinand  
Stahl

Member of the Board  
Dr. Gülen Özden Özakürk

Member of the Board  
Fatih Ağacık