AKSigorta
Bambaşka.

2 February 2021

AKSIGORTA's GWP IN THE LAST QUARTER OF 2020 REACHED 1.736m TL WITH 28% YoY GROWTH

For the Fourth Quarter Ended 31 December 2020

Aksigorta reported net profit of 88m TL and gross written premiums of 1.736m TL in the Fourth Quarter of 2020 compared to net profit of 107m TL and gross written premiums of 1.356m TL in the Fourth Quarter of 2019. These represent 82% and 128% of the corresponding numbers in the Fourth Quarter of 2019. Main factors in 4Q20 is summarized below:

- Strong YoY GWP growth continued with 28%, slightly below 3Q20 growth of 30% thanks to
    - 41% YoY increase in number of new car sales
    - New tariff launched in MOD
    - New pricing model and new technologies used in MTPL such as AI and machine learning
    - Aviation policies issued with 100m TL premium in non-motor
    - and growth focus in non-motor products especially in agency and corporate sales channels
- COVID-19 driven decrease in mobility in 2Q20 continued in 4Q20, after a break in 3Q20, as a result of lockdowns, thus the positive impact of COVID-19 on our motor underwriting (UW) margins continued in 4Q20
- Impact of 30 October İzmir earthquake on our TFRS financials is absorbed by equalization reserves
- Underwriting result in health business is not affected by COVID-19 due to full reinsurance
- Recovery of financial income with increase in interest rates partially offset with FX losses

Gross written premiums showed 28% increase in the Fourth Quarter of 2020 YoY; this is mainly coming from all products. Aksigorta market share is 8.3% as of December 31, 2020 whereas market share is 9,2% for Q4 only. We gained market share in all products in Q4 standalone.

GWP (m TL)	1Q19	1Q20	YoY	2Q19	2Q20	YoY	3Q19	3Q20	YoY	4Q19	4Q20	YoY	4Q19 YTD	4Q20 YTD	YoY
MTPL	275	378	37%	368	332	-10%	374	418	12%	459	508	11%	1.476	1.635	11%
MOD	186	247	33%	212	227	7%	250	316	26%	300	377	26%	948	1.166	23%
Non-Motor	470	454	-3%	418	382	-9%	295	470	59%	478	692	45%	1.660	1.999	20%
Health	127	155	22%	88	92	5%	56	66	19%	121	159	32%	391	472	21%
Total	**1.058**	**1.234**	**17%**	**1.084**	**1.032**	**-5%**	**975**	**1.270**	**30%**	**1.356**	**1.736**	**28%**	**4.474**	**5.272**	**18%**

Combined ratio is 96% in the Fourth Quarter of 2020, similar level with Fourth Quarter of 2019. MOD and MTPL claims frequency dropped because of COVID-19 lockdowns. Total Company underwriting result (UWR) is 95m TL in the Fourth Quarter of 2020 with an increase of 18m TL YoY.

Financial Highlights (m TL)	1Q19	1Q20	YoY	2Q19	2Q20	YoY	3Q19	3Q20	YoY	4Q19	4Q20	YoY	4Q19 YTD	4Q20 YTD	YoY
GWP	1.058	1.234	17%	1.084	1.032	-5%	975	1.270	30%	1.356	1.736	28%	4.474	5.272	18%
UWR	40	99	148%	70	196	179%	64	60	-7%	77	95	23%	251	450	79%
Expenses	-50	-57	-16%	-51	-58	-12%	-51	-61	20%	-54	-68	26%	-206	-244	18%
Financial Income	122	81	-34%	109	96	-12%	110	118	7%	115	83	-28%	456	378	-17%
Net Profit	**78**	**89**	**14%**	**90**	**169**	**88%**	**91**	**86**	**-5%**	**107**	**88**	**-18%**	**366**	**432**	**18%**
Combined Ratio	*102%*	*94%*	*-8pp*	*96%*	*79%*	*-17pp*	*97%*	*100%*	*+3pp*	*96%*	*96%*	*0pp*	*98%*	*92%*	*-6pp*

In the Fourth Quarter of 2020 assets under management increased by 26% YoY and reached 3.280m TL. With the increase in interest rates and with active management of funds annualized return yield reached 14% in (annualized) in the Fourth Quarter of 2020; leading to full year 2020 annual return yield of 12%.

COVID-19 Impact

Cash flows: Due to slow down in mobility, trade and economic activities we foresee that the cash flows will be the biggest challenge in the coming periods. We don't face any risk in our business since:

- 63% of our receivables have a credit card collateral,
- 5% of our receivables are collected via bank accounts,
- 10% of our receivables has other collaterals (such as letter of credit, cash, etc.) provided by agencies
- Our bad debt ratio is less than 0,02%

Asset devaluations: Equity market decreased by 30-40% all over the world at the beginning of the pandemic. Weight of equities in our portfolio is limited at 6%

Business continuity: Thanks to our last 10 years of investment in information technologies 100% of our teams work from home efficiently

Economic slowdown: New business sales got hurt but we did not face a major decline in our renewals

Decline in claim frequency: Slowdown in mobility (curfews, lockdowns) led to lower claim frequency in Motor LoBs in the Second and Fourth Quarters of 2020

2020 Flashback Major Issues

- 18% YoY growth in top line and 18% YoY increase in bottom line
- 179m TL positive impact of decreasing claims frequency in motor business due to COVID-19 lockdowns (6% decrease in CoR)
- 10m TL incurred claims in Elazığ Earthquake and 10m TL incurred claims in İzmir Earthquake
- 18m TL incurred claims in hail incident around Istanbul & Bursa region
- 30m TL additional provision due to the cancellation of general conditions of MTPL by the constitutional court decision
- 20m TL additional provision due to the increase in prior period claim frequency of Employers' Liability and Third Party Liability
- Telcosurance partnership with Vodafone as a single partner to sell insurance products
- IOT partnership with Fiat Connect to sell insurance products bundled with auto sales
- Mercedes brand casco to penetrate in heavy vehicle segment
- Single Smart Scoring is launched to assess all risks at once of corporates
- Remote loss adjustment by video conferencing and claimschat
- Digital technologies AI, ML, RPA, data analytics are used in motor underwriting and pricing.

Future Prospects

Topline growth will be maintained via:

- contribution of new agencies; in the last 2,5 years 1.150 new agencies are added to our agency network which make 24% of total agency GWP; # of agencies exceeded 3.300
- increase in bank penetration
- following corporate business potential closely

Combined ratio will be kept below 100% via:

- enhanced risk management policy and profitable insurance portfolio
- data analytics capabilities used in pricing and underwriting
- usage of robotic process automation (currently 96 processes are automated corresponding to 3,0m transactions in Jan.20-Dec.20 period)
- new technologies applied in customers' claim experiences
- new technologies such as AI, ML used in pricing of motor products

We will keep our focus on maximizing financial income and keeping costs under control. Even though 2020 was full of uncertainties and unexpected events, we overperformed our 2020-year end guidance of 15%-25% YoY GWP growth and 0%-10% YoY net profit growth with 18% YoY growth in both GWP and net profit.

2021 Guidance

- 15% - 25% growth in GWP
- 10% - 20% growth in net profit

<u>Q&A</u>

The following questions were raised during the earnings call:

1. The currency obviously has been strengthening recently based on orthodox policy that simply suggest the rates should be higher at least first half of the year, maybe into part of the second half of the year. What are your assumptions on yield of your portfolio? If the currency does remain relatively strong what are the further implications relatively to your guidance? Thank you.
   CFO: We hold a long position in the foreign currency side and we hedge the MOD claims. So, if the TL performs well in the first half of this year; it means that we will not gain money even we can lose some money in financial side in terms of foreign currency losses but we can gain some money from our MOD portfolio, we are number one in the market in terms of MOD at the beginning of the year, if the valuation of TL goes strong in this year that means we will have a very competitive advantage in terms of MOD policies. We can increase our MOD UW result or our market share in MOD, this will be our strategic choice.
   CEO: Currently as you rightly mentioned, high TL interest rate is depressing FX rates which is good for us by the way, because cost of claims are stable that provides us more foreseeable pricing on the policies and more stable UW results. That may lead some stagflation and growth problem in Turkey which may negatively impact our new business volume, on the other hand we can enjoy profit from existing stock level. Central Bank target should be keeping inflation at a reasonable level at 5%. Currently, inflation is 16% and we can see 18% at the half of the year. Estimations show 11-12% TL interest rate at the end of the year. What we see is TL rates will stay high not only for 6 months maybe a little longer period time and this will positively impact our financial yield margins.
2. Can you talk about larger opportunities since Aksigorta is making a lot of technology investments, what will we see next several years?
   CEO: We consider digitalization of technology in two terms: externally and internally. On the internal digitalization side, we have almost completed all the investments. Currently, around 3 to 4 million transactions have been done by robots. So, we are investing a lot, but marginal impact of internal digitalization has been decreasing. In the coming future, external digitalization has a higher potential. One of the major steps which we want to take is to carry the insurance product to customer journeys. We need to carry insurance products to customers where they are making transactions with other companies. We call it partnership insurance. Currently, we started that partnership insurance with Vodafone Turkey. Aksigorta is the single insurance provider of Vodafone Turkey and we are offering Aksigorta products to Vodafone customers while doing Telco operations in Vodafone apps or transactions, we would like to carry insurance business to where the customers are making transactions with other companies like Vodafone, airline company or retail companies. Aksigorta is one of the best companies in this respect, you are going to see the implications of that strategy starting from 2021.

3. Payments to Sabancı Foundation increased by 44% this year, although net income increased by 18%; this is amounted is nearly 7% of net income. Will Aksigorta continue donating at this rate? Will you consider changing this policy?
   CFO: In terms of Sabancı Vakfı donation, it is set in articles of association by shareholders in the general assembly as 5% of the profit before tax. So, it doesn't change year to year. It is basically due to the result of company's statutory financials. If you are calculating over net profit, it will be wrong. You have to consider the profit before tax line. So, every year it is 5% of the profit before tax.
4. Aksigorta always underestimates shared expectations, would you see an upside potential on your expectations, or would you consider revising them in the year because of the current interest rate environment and decreasing exchange rates?
   CFO: Yes, we have a smart guidance, smart target. It is achievable but it is not unrealistic. In last 3 years, there was a huge fluctuation in Turkish financial market in terms of interest rate and also in the prior year there was some regulation change in the last minute. Considering those risks in interest rate and the risks from the regulation side, we have to set a target and share a guidance which is not weak but not very unreachable. That's a challenging target in our perspective. We have opportunities as you said, our annual return yield is around 14% for the last quarter of the 2020, we started the year with 17-18%, but maybe you followed the guidance of the local banks, they all forecast around 300bps decrease in the interest rate till the year end. It means we can start with 17-18% but at the yearend it can reach 12-13%. So, the annual average could be around 15%, we are still at the challenging side with 15% total return yield. But, if the interest rate remains high, we have an opportunity from the financial income side. One big opportunity is that. The second big opportunity is COVID-19 lockdowns. There was a full weekend lockdown in December, in January lockdowns are continuing but we cannot call it a full weekend lockdown. We see a lot of people outside. So, if the lockdown continues for 3-4 months, we can benefit from the conditions. In April and May 2020, claim frequency of MOD product drop to 10% which is around 20% in the long-term. In January 2021, we do not observe this kind of decrease in the claim frequency, it is around 17-18%. We can not a call it a full lockdown, the rules and duration of lockdown could be other opportunity for our UW result. As Mr. Gülen mentioned we are investing a lot in technology side, we are leveraging our insurance result with the technology. We started a good telcosurance partnership with Vodafone. So, growth of Vodafone is also an opportunity for Aksigorta. Akbank expects a high volume of loans in their annual guidance. Aksigorta may also benefit from that growth. We have several opportunities, but we have also risks on the other sides.
   CEO: 2020 was a difficult year with a lot of events unexpected; COVID-19, earthquakes, hails etc. We do not know what 2021 will bring to us. Currently, we think 2021 will be a better year comparing to 2020 because lockdown will continue for at least 1 or 2 months, higher interest rates, strong start in market share side of Aksigorta. Today, with the existing conditions Aksigorta is very well positioned compared to market, everything changes rapidly, we have to be flexible to any changing conditions. Last year, we did it. In 2021, if any adverse conditions occur, we can easily steer Aksigorta to the proper policy to adopt the company profitability and growth. In the mid-term, we want to make Aksigorta "ultimate insurance machine". We want to make Aksigorta who use technology at most. We want to make Aksigorta the insurance leader in mobile world. We have one missing element in health side. Now, we have started to invest on how to make Aksigorta not only a health company but a winning health company. We are also thinking the future and adjusting our business, together with today's business.

5. In the investment portfolio, the corporate bonds, are they floating or fixed? I am asking this because right now there is 17% of interest rate in the banks, the realized return is 14% for your portfolio this quarter. Should we expect an increase in annualized returns? Do you have a target in capital adequacy ratio? Because, it is related with pay-out ratio as well in dividend side. Thank you.
   CFO: In the past 2-3 years most of the corporate bonds were floating rates, in 2020 most of corporate issued fixed rate bonds we invested, at the end of 2020, almost all fixed rate bonds have expired, majority of our portfolio is floating rate. We will benefit from the increasing rates. Floating rates are adjusting their rates quarterly, annual return for this year could be around 16%. Capital adequacy ratio is very important in terms of dividend pay-out ratio that will be Board recommendations to the General Assembly. Our capital adequacy ratio calculation for December 2020 is continuing, it is going to be finalized at the end of February. But it will be very similar to last year's realization.

About Aksigorta

Aksigorta is the fourth largest non-life insurance player in Turkish market with 5,3bn TL of gross premiums written and 8,3% market share in 2020. The Company is uniquely positioned to enjoy both global insurance business know-how of its shareholder Ageas and Sabancı Group expertise in doing business in Turkey. Aksigorta celebrates 60th anniversary in 2020 with 668 employees, ~3,300 agencies, 102 brokers.