3 May 2021

AKSIGORTA's GWP IN THE FIRST QUARTER OF 2021 REACHED 1.578m TL WITH 28% YoY GROWTH

For the First Quarter Ended 31 March 2021

Aksigorta reported gross written premiums of 1.578m TL and net profit of 76m TL in the First Quarter of 2021 compared to gross written premiums of 1.234m TL and net profit of 89m TL in the First Quarter of 2020. These represent 128% and 85% of the corresponding numbers in the First Quarter of 2020. Main factors in 1Q21 is summarized below:

- Strong YoY GWP growth continued with 28%, same level with 4Q20 growth thanks to:
    - 60% YoY increase in number of new car sales
    - dual price tariff in MOD capturing broader range in private car market segment
    - new pricing model and new technologies in MTPL such as AI and machine learning
    - excluding the time shift of Sabancı Group Health policy, growth in health is 10%
    - agencies' appreciation in motor products also increases our share in non-motor
    - focus in non-motor products especially in agency and broker channels
- Covid-19 driven decrease in mobility continued weaker in 1Q21 (13m TL positive impact of decreasing claims frequency thus, UW result in motor business)
- Underwriting result in health business is not affected by Covid-19 due to full reinsurance
- 2 floods incidents in Izmir in February impacted our financials by -14m TL in UW level
- A single big claim in corporate fire impacted our financials by -18m TL net in UW level
- Frost claims in agriculture impacted our financials by -5m TL in UW level
- Recovery of financial income with increase in interest rates and depreciation in TL

Gross written premiums showed 28% increase in the First Quarter of 2021 YoY; this is mainly coming from all products. Aksigorta market share is 8.0% YoY flat as of March 31, 2021. We gained market share in motor products in 1Q21.

GWP (m TL)	2019 FY	2020 FY	YoY	1Q20	1Q21	YoY
MTPL	1.476	1.635	11%	378	488	29%
MOD	948	1.166	23%	247	370	50%
Non-Motor	1.660	1.999	20%	454	582	28%
Health	391	472	21%	155	139	-11%
Total	**4.474**	**5.272**	**18%**	**1.234**	**1.578**	**28%**

Combined ratio is 106% in the First Quarter of 2021, 12pp higher compared to First Quarter of 2020. The increase combined ratio is fully coming from loss ratio. Total Company underwriting result (UWR) is 22m TL in the First Quarter of 2021 with a decline of 77m TL YoY.

Financial Highlights (m TL)	2019 FY	2020 FY	YoY	1Q20	1Q21	YoY
GWP	4.474	5.272	18%	1.234	1.578	28%
UWR	251	450	79%	99	22	-78%
Expenses	-206	-244	18%	-57	-66	-16%
Net Financial Income	456	378	-17%	81	147	81%
Net Profit	**366**	**432**	**18%**	**89**	**76**	**-15%**
Combined Ratio	*98%*	*92%*	*-6pp*	*94%*	*106%*	*+12pp*

In the First Quarter of 2021 assets under management increased by 26% YoY and reached 3.250m TL. First instalment of dividend from 2020 earnings, 202m TL gross is paid out in March 2021. With the increase in interest rates and with active management of funds annualized return yield reached 16%.

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 8%

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 and First Quarter of 2021

Future Prospects

Topline growth will be maintained via:

- contribution of new agencies; in the last 3 years 1.238 new agencies are added to our agency network which make 29% of total agency GWP; # of agencies exceeded 3.300
- increase in bank penetration
- following corporate business potential closely
- 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

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 106 processes are automated corresponding to 1,0m transactions in Jan.21-Mar.21 period)
- new technologies applied in customers’ claim experiences
- new technologies such as AI, ML used in pricing of motor products

2021 Guidance

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

Q&A

The following questions were raised during the earnings call:

1. Obviously, underwriting is you explained was not the typical earnings results, and the second quarter you mentioned that you expect the return you know closer to what it's been in the third and fourth quarter of 2020, like 70-75 million. My question is how should we think about competition going forward? Do you think it gets more intense and are we structurally seeing a change in the underwriting ratio that the combined ratio you'll achieve in this economic environment?

   CEO: Indeed, regarding underwriting performance and the competition, the first quarter underwriting result is linked to peak claims. Two of them due to bad weather conditions, particularly in Aegen Region. Unfortunately, Aksigorta has over 30% market share in that region. Any storm or heavy rain hits our financials. The second one that CFO mentioned is in South East of Turkey. Those are nature of insurance, indeed. From competition side, there is always a competition in non-life insurance market. Aksigorta does not face too much competition from pricing perspective. The major reason is that we have a good technology and algorithms for pricing in motor line of business far above than existing competitors. We use a different technology to identify risks and prices. We are able to determine the right segment for pricing in motor line business. We reach low claim frequency with that machine learning algorithms. From that perspective, on motor side competition is not a big deal for us.

   On non-motor line of business, competition is always there. The strength of Aksigorta in non-motor is the strong treaty, surplus treaty, qouta share treaty advantages against the competitor. Aksigorta has the one of biggest treaty amount in the market. As well as, I put technology here again, we have been using the AI tool to underwrite the commercial and corporate risks as well. Single Scoring project which is unique and designed by Aksigorta uses seven or eight different parameters to evaluate the risks and to determine the amount of retention and amount of reinsurance usage. Competition is not a threat for Aksigorta. In health side, we are reseller and we do not carry the risk. Competition is irrelevant for us in the health side. Shortly, we have a overall competitive advantage here for Aksigorta.

2. Just a quick question, in terms of the market is that how you see the start? Are you seeing any potential structural changes in the market given the environment that you think will change? How insurance is done or market share over the next several years?

   CEO: Indeed, there is shift from foreign players to more local players when you look at the top 10 players; in some line of business, ranking has been totally turned around. Foreign players in top 10 started to replaced by local players. There is decreasing willingness to underwrite in Turkish market for foreign insurance companies. Some foreign players are leading the competition such as HDI which acquired Ergo and Liberty recently. Some of them increase their dominance in the market, some of them are losing lots of market share. At some point, that sustainability issue also affecting the decisions of foreign players. Some of foreign players reject to underwrite commercial or corporate businesses. That's another reason for losing market share for foreign players. I would expect a consolidation in the coming period, I think we can see more consolidation in Turkish non-life insurance market.

3. Where do you see Aksigorta within that consolidation environment?

   CEO: There is another change in shareholder structure of other Sabancı Holding Company Avivasa, Ageas acquired shares from Aviva, now Ageas is multi-line operator in Turkey. Life, pension, health, and non-life are managed by same shareholders. New company joint-ventures or acquires does not surprise for me in the rest of market as a management team member.

4. There was 28% year over year increase in premium generation, also both interest rates and USD/TRY were rising, from which you were expected to benefit as well. Then how come 2021 Q1 net income is even smaller than the one in 2020? You've mentioned extraordinary claims – biggest negative impact seem to come from fire insurance. Should we assume that is one-off situation specific to Q1?

   CFO: We expect a regular result in underwriting perspective in Q2. In a regular result, we have around 70-80 million TL underwriting result. In the second quarter, our expectation is in line with those amounts and higher financial income comparing to Q1.
   CEO: As an addition, in March 2020, there was a very small mobility of people. Even a half of a month affects insurance sector positively.

5. What is your outlook on health GWP growth? Can you please briefly explain your plans on health?

   CFO: On health side, our growth target is higher than the first quarter result. I can say it will be very close to around 15%-20% in the remaning part of year.
   CEO: In the long term, 4 big product group like legs of table, we are very strong in three of them; mtpl, mod and non-motor. In the health side, our market share is around 5% which is far below our natural market share. So, the importance of health increases, so we decided to prepare a new health insurance company model. We work together with consultants and our partner Ageas. We are going to announce our long-term health insurance plan to you. Target is to double our market share in the coming 4 to 5 years.

6. How should we think about 2Q underwriting expectations given the lockdowns during Ramadan coupled with the more competitive pricing environment.. and given the very difficulty year over year comparison in 2Q21 relative to 2Q20.

   CFO: So, in the last year, we had some 180 million TL positive impact of lock down, that was a huge impact. Majority of that impact comes from second quarter. In the second quarter of this year, our expectation for impact of lockdown is 30 to 60 million. Because, we see the condition outside, the people is around, lockdown conditions are very softer than the prior year.

7. I believe there is a 151 million provision for this quarter which is a big number relative to previous PL results. What is the reason behind the big provision?

   CFO: Yes, the reason is the growth in MTPL. MTPL is a long-tailed business. Secondly, the big claims I mentioned. We haven't paid yet. We started to pay in April, and we will pay in May. That was around 44 million gross amount.

8. Regarding the health insurance premium generation: There was 22% growth in 20Q1. And there was only %10-11 (corrected to Sabancı Group Policy renewal timeshift) in 21Q1. This seems significantly behind health inflation and overall inflation. Is the number of customer decreasing or they shifting to cheaper products (from comprehensive to complementary)?

CEO: You are right. This is one of the reasons, customers shift from expensive products to cheaper ones. There is another reason, you know claims frequency decreased a lot in 2020. On the health side, claims frequency remained at the same level, lower levels in 2021. Customers are afraid of going to hospital even though there is a normalization, claims frequency stayed at the lower level throughout the year. Health Insurance companies made enormous underwriting results in 2021. Their customers asked those earnings from insurance companies, there was reduction in many group health insurance policies.

9. Does supra bonds are fixed or floating rate bonds if you may share with us also? May you please share your outlook on rates? Do you expect a rate drop in 2Q?

   CFO: They are all fixed rates bonds. We do not expect higher yield rates incoming quarter. Nowadays, rates in the market around 18%-22%. Corporate bonds have floating rates, on deposit side we can say around 18% to 19%. Our expectation is flat for the second quarter and third quarter. Maybe we can see a reduction in rates in last quarter.

10. How much negative impact can we seen on motor branches due to Lira depreciation?

    CFO: In the first quarter, realized 15 million negative impact on MOD coming from TL depreciation. We have around 1 billion portfolio in MOD, the loss ratio is around 70%, claim cost is around 700 million. 70% of claim cost comes from spare part, it is around 500 million. It is exposed to foreign currency and you see, we have assumptions for pricing in MOD, we assume that in line with inflation which is 15%. There is already 15% TL depreciation. If the depreciation is around %20, we have 5% mistargeting on pricing annually. Total impact will be 6 to 7 million.

    CEO: Major problem in Turkey is the volatiliy of FX. This volatility causes import problems for spare parts.

11. You mentioned İzmir flood costing 15 million another big cost event. Since a major earthquake is expected in Turkey, what are the cost you would associate with such an event?

    CEO: All our earthquake risks are covered by catastrophe excess of loss treaties. According to our calculation, if the earthquake happens and its cost does not exceed 300 million Euros, we are going to pay 6 million Euros. In addition, we have equalization reserves in our local balance sheet. 6 million Euros are already compensated by equalization reserve. Practically, a big earthquake will not affect our balance sheet.

    CFO: IFRS does not let provisions for non-incurred events, maximum impact on IFRS balance sheet will be 6 million Euros when we face an earthquake.

<u>About Aksigorta</u>

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.