6 August 2021

AKSIGORTA's GWP IN THE SECOND QUARTER OF 2021 is 1.422m TL WITH 38% YoY GROWTH

For the Second Quarter Ended 30 June 2021

Aksigorta reported gross written premiums of 1.422m TL and net profit of 93m TL in the Second Quarter of 2021 compared to gross written premiums of 1.032m TL and net profit of 169m TL in the Second Quarter of 2020. These represent 138% and 55% of the corresponding numbers in the Second Quarter of 2020. Main factors in 2Q21 is summarized below:

- Strong YoY GWP growth continued with 38% (1Q21: 28%, 4Q20: 28%) thanks to:
    - 51% YoY increase in number of new car sales (196k unit of new car sales in 2Q21)
    - 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
    - focus in non-motor products especially in agency and broker channels
    - strong growth in corporate channel mainly in corporate fire, liability, marine
    - agencies' appreciation in motor products also increases our share in non-motor
- Covid-19 driven decrease in mobility continued in 2Q21 20m TL (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
- Increase in MOD claim cost (spare part cost) driven by depreciation in TL
- Increase in MTPL retro pool ultimate loss ratio from 101% to 111% calculated by PwC
- Increase in frequency of medium size claims in Non-Motor
- Increase in weather related claims (flood, hail, frost, wildfires etc.) in MOD and Non-Motor
- Recovery of financial income with increase in interest rates and depreciation in TL

Gross written premiums showed 38% increase in the Second Quarter of 2021 YoY; this is mainly coming from all products. Aksigorta market share is 8.2% with 0.8pp YoY increase as of June 30, 2021. We gained market share in motor and non-motor products in 1H21.

GWP (m TL)	1Q20	1Q21	YoY	2Q20	2Q21	YoY	1H20	1H21	YoY
MTPL	378	488	29%	328	418	27%	706	906	28%
MOD	247	370	50%	223	273	22%	470	643	37%
Non-Motor	454	582	28%	389	625	61%	843	1.207	43%
Health	155	139	-11%	92	106	15%	247	245	-1%
Total	**1.234**	**1.578**	**28%**	**1.032**	**1.422**	**38%**	**2.266**	**3.000**	**32%**

Combined ratio is 101% in the Second Quarter of 2021, 22pp higher compared to Second Quarter of 2020. The increase combined ratio is fully coming from loss ratio. Total Company underwriting result (UWR) is 62m TL in the Second Quarter of 2021 with a decline of 134m TL YoY.

Financial Highlights (m TL)	**1Q20**	**1Q21**	**YoY**	**2Q20**	**2Q21**	**YoY**	**1H20**	**1H21**	**YoY**
GWP	1.234	1.578	28%	1.032	1.422	38%	2.266	3.000	32%
UWR	99	22	-78%	196	62	-69%	295	83	-72%
Expenses	-57	-66	16%	-58	-68	18%	-115	-134	17%
Net Financial Income	81	147	81%	96	135	41%	177	282	59%
Net Profit	**89**	**76**	**-15%**	**169**	**93**	**-45%**	**258**	**169**	**-35%**
Combined Ratio	*94%*	*106%*	*+12pp*	*79%*	*101%*	*+22pp*	*86%*	*103%*	*17pp*

In the Second Quarter of 2021 assets under management increased by 24% YoY and reached 3.671m 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:

- 62% of our receivables have a credit card collateral,
- 4% of our receivables are collected via bank accounts,
- 12% of our receivables has other collaterals (such as letter of credit, cash, etc.) provided by agencies
- Our bad debt ratio is less than 0,01%

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 3%

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 and Second Quarters of 2021

Future Prospects

Topline growth will be maintained via:

- contribution of new agencies; in the last 3 years 1.310 new agencies are added to our agency network which make 30% of total agency GWP in Jan.21-Jun.21 period; # 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 114 processes are automated corresponding to 2,3m transactions in Jan.21-Jul.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. Q: Can you repeat the reasons behind declining earnings?

   CFO: There is around 20 million negative impact from MTPL pool. Pool is managed by Turkish Traffic Office and ultimate loss ratio of the pool is measured by PwC. Ultimate ratio of pool increased by 20pp. Secondly, there was the negative effect of İzmir flood with 15 million in MoD side in the first quarter. In the second quarter, we also see the FX increase combined with the positive impact of lockdown, net effect is negative 20 million TL. Negative effect of FX increase is higher than the positive impact of lockdown. Fx rate is very important in MoD side. There was also a big claim in a cotton warehouse in the first quarter again which has a 15-20 million cost. We observed the increase frequency of medium size claims during the first half of 2021. We replaced the declining underwriting result with the increase of financial income.

2. Q: How can you maintain 2021 guidance when 1H net income is down 35%?

   CFO: That's a very good question. We maintain our guidance because our financial income increases. Secondly, our topline increases also, it will bring a higher cash inflow and higher underwriting result in the second half of year. There is also a discussion on the claim provisioning regulations, we have a draft which is announced by the Regulation and Investigation Office of Insurance. They consider a positive change in Medical Malpractice provisions. Compensation of medical malpractice insurance is sum of material and moral claims. Moral damage payments are very lower than the provision. But we have to provision the first cost of claim file according to current regulation. They consider the use insurance firm own or market statistics to limit the roof of the provisions. The third option is to ask an expert or a consultant to assess the provision amount. It will be very beneficiary change for Aksigorta, we have nearly 25% of market share in Medical Malpractice insurance.

3. Q: Do you see technology starting to have a larger impact relative to your competitors and what do you see from your competition in terms of their use of technology relative to you? Are their fintech companies that are looking to make headway into the sector as we are seeing in other countries. Is that a real future risk? In this environment, would you expect pricing to improve as the only companies able to generate good returns are ones with large floats or exceptional underwriting? Do you see better pricing discipline going forward? How do you see pricing pressure in 2H21?

   CEO: Using the technology will be the key success factor for a non-life insurance company in the coming period. Any company which does not required investments on the technology will disappear from the marketplace. One of Aksigorta KPIs is usage of digitalization and analytics.

This is monitored closely by Board level. Aksigorta does a continues benchmarking and compare itself to rest of the competitors. Very recent benchmarking shows that Aksigorta is the leading company in that aspect. That will create difference both in the processes and customer transactions. Aksigorta has 3% better G&A ratio than the top competitors with usage of technology. A lot of fintech and insurtech companies want to enter the insurance market. Probably, we are going to see more that kind of companies. Insurance is a traditional business and the change will not occur quickly. We are turning Aksigorta from a non-life insurance company to a technology company which is operated in non-life insurance market. This is our motto. Technology and sustainable planet are key issues in Aksigorta. Climate change incidents will hit the balance sheet and PLs of non-life insurance companies. For the other question, we see an increase in prices in MTPL and MoD sides. Pricing is always an issue in non-life. I do not see a different level of price pressure than the other quarters.

4. Q: Yield realized at 16%, which is below the deposit rate, what was the main reason for this near 2-point underperformance and what is your year-end guidance for the investment income yield? Thank you.

   CFO: As I mentioned, we have risks and opportunities. In the opportunities side, return yield will be higher in the second half of the year. Secondly, we can expect some increase in pricing of MoD because companies will realize the declining underwriting results in MoD. We are growing very fast and more than expected with growing cash inflow. We were expecting a higher yield return than 16%. One of the main reasons is that we extended the durations. We realized some capital losses in government bonds and Eurobonds. We were holding investments in equities, the 8% of our investment portfolio. We reduced that portion to 3%. Again, we realized capital losses in equities side also. Starting from the second quarter, we increased the share of deposits, swaps, supranational bonds, and corporate bonds. All of them have more than 19% yields. That will bring a big contribution to our return yield.

<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.