7 February 2022

AKSIGORTA 2021 GWP REACHED 6,988m TL WITH 33% YoY GROWTH

2021 PERFORMANCE SUMMARY

Aksigorta reported gross written premiums (GWP) of 6,988m TL and net loss of 189m TL in 2021 compared to gross written premiums of 5,272m TL and net profit of 444m TL in 2020. These figures represent 33% growth in gross written premiums and -57% decline in net profit in 2021.

- YoY GWP growth continued in fourth quarter with 45% (1Q21: 28%, 2Q21: 38%, 3Q21: 16%)
- Highlights of 2021 GWP growth:
    - strong growth of 46% in non-motor – fire, marine, engineering, liability main drivers
    - agencies' appreciation in motor products also increases our share in non-motor
    - new pricing model and new technologies in MTPL such as AI and machine learning
    - focus in non-motor products especially in bank and corporate channels
    - Aksigorta market share increased by 0.2pp YoY and reached 8.5% as of Dec. 2021

GWP (m TL)	**2020**	**2021**	**YoY**
MTPL	1.635	2.103	29%
MOD	1.166	1.431	23%
Non-Motor	1.999	2.922	46%
Health	472	532	13%
Total	**5.272**	**6.988**	**33%**

- Major regulatory changes announced in the last quarter of 2021:
    - Capital Adequacy Ratio threshold to be considered in 2022 dividend distribution has been announced as 135%
    - With the circular numbered 2021/30, the official discount interest rate has been revised to 14% instead of 9%
    - The rate used in the calculation of the Unexpired Risk Reserve (URR) has been revised from 95% to 100% in MTPL
    - Technical interest rate was revised from 1.80% to 1.65% with the change in general conditions in MTPL. An upward revision was made in the estimated risk amounts by considering the a_x formula instead of $a_{x:n}$ in calculations of permanent disability claim reserves
    - In the medical malpractice liability regulation, companies are allowed to update the outstanding claim reserve amounts based on the best estimate approach, via analysis of last 5 years statistics

- With the revision of the official discount interest rate to 14% from 9%, discounting of outstanding claim reserves which was applied in the past for three branches, started to be applied in all branches. As a result of this decision, which is considered as an accounting policy change, the financial statements have been restated retrospectively
- Decreased mobility due to Covid-19 has ended in 2021, which had a negative impact on the loss ratios in Motor branches
- As a result of TL depreciation and 50% increase in minimum wage, already priced (in force) MOD portfolio resulted in technical loss (because of increase in spare parts and labor cost)
- Increase in small and medium size claims in non-motor products
- The combined ratio increased by 26pp in 2021 compared to 2020 and reached 118%. The increase in the combined ratio comes entirely from the loss ratio which increased to 96% in 2021
- As a result of the increase in the minimum wage, inflation and exchange rates that exceeded the market expectations, additional technical reserves were needed in MTPL, while profit margins decreased due to higher claim cost in MOD
- Total underwriting result (UWR) decreased by 872 million TL annually to -319 million TL in 2021
- Financial income increased by 128% compared to 2020, driven by higher interest rates and foreign exchange income, partially offsetting the 158% decline in UWR

Financial Highlights (m TL)	**2020**	**2021**	**YoY**
GWP	5.272	6.988	33%
UWR	553	-319	-158%
Expenses	-244	-271	11%
Net Financial Income	378	861	128%
Net Profit	**444**	**189**	**-57%**
Combined Ratio	*92%*	*118%*	*+26pp*

- In 2021, gross dividend of 306 million TL was distributed from the profit of 2020
- In 2021 Aksigorta AuM increased by 23% compared to the previous year and reached TL 4.0 billion. Thanks to successful fund management, the financial return rate was 26% in the last quarter of 2021 (1Q21: 16%, 2Q21: 16%, 3Q21: 18%)
- As a result of the TL depreciation in the last quarter of 2021, the foreign currency policy was reviewed, and it was decided to increase the net balance sheet foreign currency position to hedge from the FX effect on the MOD spare part claim cost

Prospects

Topline growth will be maintained via:

- contribution of new agencies; in the last 3 years 1.469 new agencies are added to our agency network which make 32% of total agency GWP in Jan.21-Dec.21 period
- # of agencies exceeded 3.500 at the end of 2021
- increase in bank channel penetration
- following corporate business potential closely
- Telcosurance partnership with Vodafone to sell insurance products
- IOT partnership with Fiat Connect to sell insurance products bundled with auto sales
- Mercedes-Benz branded MOD launched in October 2021

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 126 processes are automated corresponding to 4,75m transactions in Jan.21-Dec.21 period) leading to operational efficiency & saving
- new technologies applied in customers' claim experiences
- new technologies such as AI, ML used in pricing of motor products

<u>Q&A</u>

The following questions were raised during the earnings call:

- **Q:** Given the sharp depreciation in TL and increase in MOD & MTPL claims you raised the prices significantly, I suppose. But this comes with a delay. USD/TL rate remains around 13,5. When do you think negative spread will be completed? When are you going to be priced correctly against spare part inflation? Secondly, you record gain from the medical malpractice around 42 million TL I suppose, I guess there should be more to come, when do you expect to record additional gain from this item? Thank you.

  CEO: First, when we start to 2022, we have two different portfolios. One of them is in force policies that come from 2021 and the new businesses from 2022. I will start with the new business portfolio. For MOD side, it is not easy to foresee what may happen in 2022 in Turkey. Existing insane macroeconomic politics, how long those insane policies may last is another question. According to our assumptions that we use in tarification, our written MOD policies bring positive underwriting starting from 1st January 2022. On the other hand, MTPL side has a price cap. Starting from February, those prices are increased by 20% as one off by the regulator. But, there still is a negative underwriting margin for the new policies which are written with 20% higher prices. For both of these products, we are much more selective comparing to prior year. We try to increase our underwriting margin in MOD and decrease the underwriting losses from MTPL for new businesses. But as you rightly mentioned, there are also policies coming from prior year. These policies bring underwriting losses because they were priced under different inflation and fx rate figures. We assume that new businesses will bring positive underwriting results but in force businesses will bring losses throughout the year. If the existing macroecomic conditions keeping fx rate under 14,00 and inflation expectation continue, we can make positive underwriting result starting from third quarter of 2022. I have to underline that market is not foresable as you know better than me
  CFO: We talked several times before that there would be releases from our Med-mal reserves. Our expectation was around 70-80 million, we have released 75 million TL from Med-mal reserves in the last quarter but claims increased more than we forecasted. The pool management recognized they did not fully book and allocated to companies. So, our outstanding claims suddenly increased by 32-33 million. We have released 75 million and lost 32 million, net effect of the quarter was 42 million. For the coming period, I can say that loss ratio in that product reached to 700%. We are losing 600 lira per 100 lira premium. This is a very huge loss-making product. We will see clearly next months, but loss ratio should decrease to 200%-300%. This is a liability product, this is full tariffed by the Regulator. There will be price rationalism in that product, at least 100%-150% price increase. There will not be that much release from medical malpractice. We can say that there will be negative results from medical malpractice, this will not hurt our financial results. We have around 6-7 million

net earned premium in that product, 700% loss ratio means 30-35 million loss per annum. This is not material.

- **Q:** You showed a table, with deviations of expectation vs. actual result. Which items are cash basis and non-cash basis?
  CFO: I can say that claim cost inflation is almost all cash items. Minimum wage increase is non-cash item, unexpired risk reserve is non-cash item, change in general conditions is non-cash item, higher financial is cash item. The rest are non-cash items. There are only 2 cash items which I mentioned before claims costs and higher financial income in the bridge

- **Q:** Minimum wage increase effect is 250 million negative, if there was an expected minimum wage increase rate you could have achieved net profit target, right?
  CFO: Yes, each 1 percent increase accounts minus 8 million in net profit

- **Q:** Thank you for the presentation. Are you going to provide any guidance for 2022?
  CFO: No, because the volatility is so high. Under these macroeconomic conditions, we will not provide a guidance for 2022

- **Q:** I see that your commision ratio has declined to 13% from 15%, how did you achieve it and do you expect this decline to continue this year as well?
  CEO: Most probably, the contribution of bank is declined. One reason is the channel mix, during the Covid-19 period there were less hospital visits, there was a positive result in health business. We called back some of those underwriting result as a commision income in this year. That also improved our commision ratio

- **Q:** How much buffer does Aksigorta have over required capital? Should we assume any dividend out of 21 earnings?
  CFO: No, unfortunately. The regulation says insurance companies have to calculate the required capital and avaiable capital. As we disclosed at the footnote, our required capital is less then avaiable capital at the end of year. Before the year end, the Regulator announced a new rule indicating that the companies that have capital adequecy ratio lower than 135% can not pay out dividend in 2022
  CEO: Dividend is not possible in 2022 due to lack of capital adequecy ratio

- **Q:** Is there any plan to buy back shares?
  CEO: Really, I do not know, we haven't disscussed any share buyback plan. But, this is not in the agenda of the company