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AKSIGORTA GWP REACHED 3,059m TL WITH 108% YoY GROWTH IN THE THIRD QUARTER OF 2022

2022 THIRD QUARTER PERFORMANCE SUMMARY

Aksigorta reported gross written premiums (GWP) of 3,059m TL and net profit of 51m TL in third quarter of 2022 compared to gross written premiums of 1,471m TL and net profit of 67m TL in third quarter of 2021. These figures represent 108% growth in gross written premiums and 24% YoY decline in net profit in the third quarter of 2022.

- Highlights of the third quarter of 2022 GWP growth:
 - Strong growth of 94% in non-motor – engineering, marine, business, and liability are main drivers
 - Limited growth was achieved in traffic insurance due to cost increases that were much higher than anticipated
 - Focus on non-motor products especially in bank and corporate channels
 - Aksigorta market share decreased by 1.1pp YoY and reached 7.1% as of Sep.22. Loss of market share is driven by motor products, and market shares in non-motor and health products were maintained compared to the same period of the previous year.

GWP (m TL)	2021 Q1	2022 Q1	YoY	2021 Q2	2022 Q2	YoY	2021 Q3	2022 Q3	YoY	2021 YTD	2022 YTD	YoY
MTPL	488	625	28%	426	850	100%	514	728	42%	1.428	2.204	54%
MOD	369	508	37%	274	780	184%	332	1.080	225%	976	2.367	143%
Non-Motor	582	1.129	94%	616	1.166	89%	538	1.042	94%	1.736	3.337	92%
Health	138	220	59%	106	231	118%	87	209	140%	332	660	99%
Total	1.578	2.482	57%	1.422	3.027	113%	1.471	3.059	108%	4.471	8.568	92%

- Major regulatory changes announced in the third quarter of 2022:
 - With the Circular No. 2022/27 published by the SEDDK on October 24, Company actuaries are authorized to eliminate the impact of macroeconomic fluctuations in the calculation of the Unexpired Risk Reserve (URR).
- As a result of the effect of the depreciation in TL and the increase in the minimum wage in the motor insurance damage cost (spare part cost and labor expense), technical loss arises from the portfolio that is already priced (in-force portfolio). The technical profit of the new business portfolio written in 2022 reached a level which compensates for the losses of the in-force portfolio in the third quarter.
- Increase in small and medium size claims in non-motor products
- Actuarial valuation report on the risky drivers' pool ultimate loss ratio estimation prepared as of the second quarter of 2022 and published by PwC in September and, ultimate loss ratio of the traffic pool was revised upwards for all accident years
- Total underwriting result (UWR) decreased by TL 289 million to -298 million TL YoY in the third quarter of 2022

- The combined ratio increased by 23pp in the third quarter of 2022 compared to third quarter of 2021 and reached 132%. The increase in the combined ratio comes entirely from the loss ratio which increased to 111% in the third quarter of 2022.
- Net financial income, including FX gain/loss and financial expenses, increased by 189% compared to the third quarter of 2021 and amounted to TL 467 million TL.

Financial Highlights (m TL)	(Restated) 2021 Q1	2022 Q1	YoY	(Restated) 2021 Q2	2022 Q2	YoY	(Restated) 2021 Q3	2022 Q3	YoY	(Restated) 2021 YTD	2022 YTD	YoY
GWP	1.578	2.482	57%	1.422	3.027	113%	1.471	3.059	108%	4.471	8.568	92%
UWR	22	-490	-2360%	62	-498	-908%	-9	-298	3083%	74	-1.287	-1840%
Expenses	-66	-101	52%	-68	-103	52%	-65	-127	95%	-199	-332	66%
Net Financial Income	147	273	86%	135	323	139%	162	467	189%	444	1.067	140%
Net Profit	92	-254	-377%	95	-192	-303%	67	51	-24%	253	-395	-256%
<i>Combined Ratio</i>	<i>106%</i>	<i>164%</i>	<i>58pp</i>	<i>101%</i>	<i>156%</i>	<i>55pp</i>	<i>109%</i>	<i>132%</i>	<i>23pp</i>	<i>102%</i>	<i>149%</i>	<i>47pp</i>

- In the third quarter 2022, Aksigorta AuM increased by 71% compared to the previous year and reached TL 6.5 billion. Thanks to successful fund management, the financial annualized return yield increased to 33% in the third quarter of 2022 (Return yield in second quarter of 2022 was 29%).
- 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 the FX effect on the MOD spare part claim cost. The net balance sheet FX position, which was 68m USD long at the end of 2021, is increased to 181m USD at the end of September 2022.

Prospects

Topline growth will be maintained via:

- Contribution of new agencies; in the last 3 years 943 new agencies are added to our agency network which make 34% of total agency GWP in the third quarter 2022
- # of agencies exceeded 3.600 in the third quarter of 2022
- 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
- Economic MOD product suitable for economic conditions

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 153 processes are automated corresponding to 4,2m transactions in Jan.22-Sep.22 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
- New collaborations in the Digital Channel
- New products in the bank channel

Q&A

The following questions were raised during the earnings call:

Q- Was there any decision in favour of non-life insurers in Insurance Association BoD meeting?

CEO- Since Mehmet Akif Erođlu has become the chairman of the Insurance Association, the Association has been working very closely with the insurance companies, particularly in the roadmap for the MTPL issue. MTPL is the major issue, due to its long tail nature and with regards to the influence of the effect of the minimum wage to do bodily injury claims. There is a supply problem in industry now and it may continue, so all the insurance companies in the Association have been forcing Regulator to find the solution for the MTPL issues. Now we have prepared the action list composed of more than 15 items. Most of them will be to improve the MTPL performance in the market in the coming period. We are really working quite hard in this uncertain environment.

Q- Can you please inform us about the lately announced regulation? What does the new regulation mean for the sector and how can it affect the financials of Aksigorta?

CEO- Unexpired reserve is related with the SFRS financials on which we calculate our capital adequacy ratio, and also distributable profit. Under normal conditions, unexpired risk reserve (Devam Eden Riskler Karřılıđı) in short DERK is calculated based on the difference between the actual loss ratio and 95% threshold which has been multiplied by the unearned premium, so unexpired risk reserve has been calculated such a way. Of course, the existing loss ratios include the prior year's run off, the head coming from after November 21 are included in the existing loss ratio. Now URR computation has been changed so each company will calculate URR according to the future expectations. So, this will bring huge reserve release in the industry financials. Aksigorta doesn't have to use that regulation change in 3rd quarter. We are going to reflect the change in calculation of DERK in the 4th quarter because we want to use the tool to compensate for the minimum wage increase impact at the year end.

CFO- We could say the effect of that regulation change on that unexpired risk reserve will be very high which is around 545 million on our balance sheet at the end of third quarter. According to our opinion, with the new regulation change, we could release the majority of the URR at the end of the year. There is a huge risk which is driven by the minimum wage increase according to our recent pricing during the year. We were considering some 50% increase at the end of the year at minimum wage, if this goes up to 82%, implying 10.000 TL minimum wage, there would be a huge negative impact on our balance sheet. Which could be not fully but very closely compensated by the URR release so that could use the compensation option of the minimum wage negative impact at the year end. We will discuss the issue internally and also together with the independent auditor for the implementation of that new URR rule.

Q- When do you think your real earnings and RoE would reach back to 2019-2020 levels?

CFO- We can exclude 2020 and 2021, because it was the pandemic period but 2019 is a good reference. Our RoE was around 45% to 50%. In the past, we were low equity holding company whereas high dividend payer company, but this was very dangerous for capital adequacy. Our equity must be robust considering the risks of this kind of volatility in the economy. In the coming period again Aksigorta's RoE would increase very quickly I think. 1.5 billion TL loss this year is coming from the in-force motor portfolio. That loss would not be that much in the coming years. I think we will have some positive margin in MOD whereas we have negative in this year and we will have a negative margin in MTPL still because its price is capped but it will not be as bad as this year's loss.

I think, next year's underwriting result will be better than this year's huge loss and adding on the financial income and our financial return yield will be the highest level at the beginning of next year and then it will reach a saturated level it will be stable or slightly coming down. Composed of this scenario, result could be above 20% RoE in the next year. I strongly believe the RoE will be higher than 20% but 45%-50% RoE level could be far because you know we have to keep some equity in our balance sheet in considering the risks in terms of macroeconomic volatility, minimum wage increases, inflation etc... In the future, our RoE would be higher, but I don't think as much as 2019 or 2020 level.

Q- How do you motivate your human resources in a low profitability environment?

CEO- In terms of motivation, we are very transparently explaining everything to Aksigorta employees. Aksigorta is a very flat organization. We continue to invest on HR, a lot of training programs and as well as change our organization structure. Employees are working in small squads, so they see how they are creating value for the company. On the other hand, we continue to invest on technology on that digitalization issue our technological improvements saved almost 200 employees for Aksigorta. That's why Aksigorta has the lowest G&A ratio in the market. We are still investing on innovating systematic processes. We are measuring the engagement of the company, even though increase a few percent, still we are in the exceptional zone compared with the rest of the industry and the rest companies which use the same measurement. So, from that perspective I believe, we are managing those low profitability environments.

Q- Do you see diminishing demand for MOD given the jump in policy pricing?

CEO- Definitely, we see. Because MOD prices double in Euro terms and in Turkish Lira terms. It is quadrupled. The value of the car has increased rapidly, we are seeing very unbelievable MOD prices in the market. Those high MOD prices, some of the companies are lapsing from MOD policies in order to acquire or not to miss those customers. Aksigorta and other competitors as well are launching new more economical MOD products. We have 2 products available in the market one of the best economic Casco and the other super economic Casco. Some exclusion limits some repair shop networks if you repair not the shop networks limiting the number of drivers or submit it Assistance services we are provided on the economic Casco. Those products are selling but number of customers who are lapsing from MOD has been increasing.

Q- Did you say around 550 million TL possible revision from URR?

CFO- As I said that there is a possibility it would not be 1 to 1 perfect matching URR release at the negative effect coming from the minimum wage increase. But that URR release could mostly compensate the negative impact of the minimum wage. That's very good both for Aksigorta and the non-life insurance market. From our side, we are expecting risk factor of motor products to be decreased at the press meeting on 15th of November. This is our expectation, there could be some easing ways for the capital adequacy to be announced at the same meeting from the Regulator. We are trying to have a best capital adequacy, above 100% at the year end.