

14 February 2023

AKSIGORTA GWP REACHED 4,996m TL WITH 99% YoY GROWTH IN THE FOURTH QUARTER OF 2022
2022 FOURTH QUARTER PERFORMANCE SUMMARY

Aksigorta reported gross written premiums (GWP) of 4,996m TL and net profit of 274m TL in fourth quarter of 2022 compared to gross written premiums of 2,516m TL and net loss of 64m TL in fourth quarter of 2021. These figures represent 99% YoY growth in GWP, and 531% YoY increase in net profit in the fourth quarter of 2022.

- Highlights of the fourth quarter of 2022 GWP growth:
 - Strong growth of 205% in MOD (casco) insurance – pricing supported by use of artificial intelligence technology
 - Strong growth of 106% in non-motor – home package, liability, corporate fire, and business fire insurance are main drivers
 - Focus on non-motor products especially in bank and corporate channels
 - Aksigorta market share decreased by 1.5pp YoY and reached 6.9% as of Dec.22. Market share loss is mainly driven by motor and health products, whereas non-motor market share was maintained compared to the same period of the previous year

GWP (m TL)	1Q21	1Q22	YoY	2Q21	2Q22	YoY	3Q21	3Q22	YoY	4Q21	4Q22	YoY	2021	2022	YoY
MTPL	488	625	28%	426	850	100%	514	728	42%	675	719	6%	2.103	2.922	39%
MOD	369	508	37%	274	780	184%	332	1.080	225%	455	1.389	205%	1.430	3.757	163%
Non-Motor	582	1.129	94%	616	1.166	89%	538	1.042	94%	1.186	2.440	106%	2.922	5.777	98%
Health	138	220	59%	106	231	118%	87	209	140%	200	448	124%	531	1.108	108%
Total	1.578	2.482	57%	1.422	3.027	113%	1.471	3.059	108%	2.516	4.996	99%	6.988	13.563	94%

- As a result of the depreciation in TL and the increase in the minimum wage MOD claim cost (spare part cost and labor expense) increased, leading to technical loss which arises from the portfolio that is already priced (in-force portfolio) in the first three quarters of 2022. 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 and MOD technical loss turned into profit in the fourth quarter of 2022
- In the actuarial valuation report on the risky drivers' pool ultimate loss ratio estimation prepared as of the third quarter of 2022 and published by PwC in December ultimate loss ratio of the traffic pool was revised upwards for all accident years
- Increase in medium and large size claims in non-motor products
- Total underwriting result (UWR) is positive with 463 million TL YoY increase reaching to 71 million TL in the fourth quarter of 2022
- The combined ratio improved by 50pp YoY in the fourth quarter of 2022 and resulted as 105%. The decrease in the combined ratio comes entirely from the loss ratio which decreased to 83% in the fourth quarter of 2022
- Net financial income, including FX gain/loss and financial expenses, decreased by 19% compared to the fourth quarter of 2021 and realized as 339 million TL. In 2022 137 million TL financial income was recorded from TL tax advantage funds, generating 37 million TL tax shield.

Financial Highlights (m TL)	Restated 1Q21	1Q22	YoY	Restated 2Q21	2Q22	YoY	Restated 3Q21	3Q22	YoY	4Q21	4Q22	YoY	2021	2022	YoY
GWP	1.578	2.482	57%	1.422	3.027	113%	1.471	3.059	108%	2.516	4.996	99%	6.988	13.563	94%
UWR	22	-490	n/a	62	-498	n/a	-9	-298	n/a	-393	71	118%	-319	-1.216	-282%
Expenses	-66	-101	-52%	-68	-103	-52%	-65	-127	-95%	-72	-152	-113%	-271	-484	-79%
Net Financial Income	147	274	86%	135	324	139%	162	468	189%	417	339	-19%	861	1.406	63%
Net Profit	92	-254	-377%	95	-192	-303%	67	51	-24%	-64	274	531%	189	-121	-164%
Combined Ratio	106%	164%	+58pp	101%	156%	+55pp	109%	132%	+23pp	155%	105%	-50pp	118%	135%	+17pp

- In the fourth quarter 2022, Aksigorta AuM increased by 90% YoY and reached 7.6 billion TL. Thanks to successful fund management, the financial annualized return yield (interest + FX) increased to 25% in the fourth quarter of 2022.
- With 1.0 billion TL capital increase and capital adequacy focused actions, the year-end capital adequacy ratio realized as 103% in 2022.

Prospects

We feel the deep sadness for the earthquakes that took place in Kahramanmaraş and affected approximately 12 provinces. We wish God's mercy on those who lost their lives and a speedy recovery to the injured ones. As always, we stand by our people in every way, both materially and morally, in this difficult period as Aksigorta. We would like to point out that we have the financial power to recover the claims of our policyholders. We foresee that with our excess of loss reinsurance agreement covering all catastrophic risks, including earthquakes and equalization reserve in our financials booked to recover the catastrophic risks such as flood and earthquake etc. could compensate the claims of the earthquake incurred and we do not see any negative impact on our equity and balance sheet profitability in 2023.

Topline growth will be maintained via:

- Contribution of new agencies; in the last 5 years 1.612 new agencies are added to our agency network which make 34% of total agency GWP in 2022
- # of agencies exceeded 3.600 in 2022
- Increase in bank channel penetration with the complementary health product
- 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
- 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 160 processes are automated corresponding to 5,9m transactions and 200+ FTE in Jan.22-Dec.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: Could you please evaluate the economic impact of the earthquake on both macro terms and insurance market?

CEO: As you know, 2 big earthquakes happened on the southeast region of Türkiye. But it is like 2 earthquakes following each other as a big one catastrophic event from reinsurance point of view. Our “draft” estimation shows us 20-30 billion dollars economic loss in that area. On the other hand, we checked each policy with the Insurance Association, we estimate insurable loss amounting 3 to 4 billion dollars. We also discussed with TCIP (Turkish Catastrophic Insurance Pool); their managers estimate that they would pay 1,5 to 2 billion dollars to victims of earthquakes as claim payments. It is a quite important amount for the Turkish Insurance Industry. This is a catastrophic event and insurance companies expect to protect their financials by catastrophe excess of loss treaties. I can not say anything about other companies, but I can give some numbers from Aksigorta. We are very strong at that area with 10% market share, more than 15% and 16% market share in some cities that affected by earthquake. This calculation shows us that 10% of 2 billion dollars insurable loss is covered by Aksigorta amounting approximately 200 million dollars as our risk. We have reinsurance treaty which covers 150 million dollars of that loss, Aksigorta has the net risk of 50 million dollars here. But this is also reinsured by catastrophe excess of loss treaty amounting to 225 million Euros. From that perspective, Aksigorta’s statutory financials which are related to dividend distribution and capital adequacy ratio are not under a big trouble. Impact of earthquakes on Aksigorta’s financials is negligible. Of course, there will be a big claim operation on that such as loss adjustment. This brings a though reinsurance negotiations for Turkish Insurance Industry next year. We will also use our 7,5 million Euros equalization reserve on our financials to these earthquakes.

Q: Thanks for the presentation, do you expect any regulatory supportive action in 2023?

CEO: There would be two different perspectives, one of them was about capital adequacy ratio improvement issue, which was updated at the end of 2022, we can also expect that in 2023. The second perspective is about subordinated loan which is a long-term loan for the insurance industry. It is a very supportive action for the insurance industry capital. As an addition, maybe I can say the MTPL price tariffication improvement. After two big earthquakes, these supportive actions will be very helpful for the insurance industry.

Q: Thanks for the opportunity, could you give us some color on combined ratios for 2023?

CFO: Yes, the last quarter of 2022 combined ratio will be a good reference for 2023. We will try to keep that level. What are the risks? As CEO mentioned, price in MTPL is a major risk, regulatory issues, minimum wage increase rate which exceeds the inflation rate is also a risk on MTPL profitability, spare part inflation, level of FX rate increase, and catastrophic events are the risks about the combined ratio.

Q: What is your strategy for the financial assets in 2023? Do you expect high returns this year as well?

CFO: We try to benefit from the increasing yields in corporate bonds, one of our strategies is that we will increase our exposure in corporate bonds. Secondly, we monitor the deposit rates. We are short in terms of overall duration of the portfolio, so, anytime we can benefit from the increasing deposit rates. We also have investments in offshore markets that we have 40% return yield rate, this is a very good contribution for our overall return yield. Our FX portfolio was very short at the of 2022 because of solvency concerns. We increased our FX exposure starting from January. Our target is to have 25%

of total portfolio in Eurobonds. Turkish corporate and government bonds also have high return yields. We have limited exposure in the US market equities because of ESG concerns which is 5% of portfolio. 5% of portfolio is in Turkish equity markets. We target the high return yields and tax shields from the investment funds in the local market. We invest on investment funds which have 25% corporate tax shield in local market. With that tax shield, our overall return yield would be greater than 30%.

Q: My question is about the sub-loan, could you give briefly details on that such as duration, cost etc.?

CEO: Sub-loan is defined in the regulation; many banks use this kind of long-term loans. In the first 5 years, there will be no principal payments, only the interest will be paid. The amount is limited to 30% of required capital of company. Most of the time, banks are issuing more than the 5 years bonds, and the put a redemption option at the end of the first 5 years. If the duration is less than 5 years, the proportion of loan decreases. For example, duration is 4 years, the amount of loan would be less than 30% of required capital then. After two big earthquakes, this kind of supportive capital from government would be very helpful for the insurance industry.

Q: You mentioned, you have 200 million USD risk on your side for the earthquakes. Is this for only catastrophic risk or does it include every type of claims?

CEO: What is important is core reason of claim, in this case it is the earthquakes. Any type of claim triggered by earthquake will be paid under that catastrophic treatment. That means, 200 million USD risk includes all type of claims.

Q: Your credit card receivables declined comparing to 2021, what is the reason behind of that?

CFO: We discounted our credit card receivables by the most recent rate of 11%, we get a spread of 27-28% yield when we deposit that money. We enjoy the beneficiary spread here.

Q: You have 61 million USD long position; do you think it is enough to cover all possible MOD claims?

CFO: No, it is a temporary position for the year end. We increased our FX position immediately in January 2023.

CEO: This short FX position was for capital adequacy concerns at the end of the year.