8 August 2023

IN THE SECOND QUARTER OF 2023, AKSİGORTA INCREASED PREMIUM PRODUCTION by 96% to TL 5,945m and INCREASED ITS NET PROFIT to TL 454m

2023 SECOND QUARTER PERFORMANCE SUMMARY

Aksigorta announced gross written premiums (GWP) of 5,945 million TL and net profit of 454 million TL in the second quarter of 2023, compared to gross written premiums of 3,027 million TL and net loss of 192 million TL in the second quarter of 2022. These figures represent 96% YoY growth in GWP in the second quarter of 2023.

- Highlights of the second quarter of 2023 GWP growth:
    - Strong growth of 121% in non-motor – corporate fire, home package, liability and TCIP (DASK) insurance are main drivers
    - Focused on non-motor products, especially in the bank and corporate channel
    - Strong growth of 85% in MOD – pricing supported by artificial intelligence technology
    - Aksigorta market share decreased by 1.2pp YoY and reached 6.4% as of Jun.23.

GWP (m TL)	1Q22	1Q23	YoY	2Q22	2Q23	YoY	HY22	HY23	YoY
MTPL	625	1.084	73%	850	1.357	60%	1.475	2.441	65%
MOD	508	1.233	143%	780	1.443	85%	1.288	2.676	108%
Non-Motor	1.129	2.144	90%	1.166	2.576	121%	2.295	4.720	106%
Health	220	710	223%	231	569	146%	451	1.279	183%
Total	**2.482**	**5.171**	**108%**	**3.027**	**5.945**	**96%**	**5.509**	**11.117**	**102%**

- Major regulatory changes announced in the second quarter of 2023:
    - The legal discount interest rate used in discounting the net cash flows arising from the outstanding claims provision has been revised as 28% instead of 22% as of 30 June 2023 with the circular no. 2023/21 dated 12 July.
- Aksigorta's financial statements had a net increase of 331m TL on the discount amount with increasing the discount rate from 22% to 28% in June.
- As of the fourth quarter of 2022, MOD has become positive in terms of insurance technical profits with the rising pricing. This trend continued in the second quarter of 2023 as well.
- In the actuarial valuation report on the final loss/premium rate estimation of the risky drivers' pool, published by PwC and prepared as of the first quarter of 2023. The final loss premium rate of the traffic pool was kept at a similar level for all accident years, while the AYM traffic general conditions were canceled for the 2022 accident year. It has been revised upwards with the effect of both the effect of the change in macroeconomic indicators and the effect of the change in macroeconomic indicators.
- The company's total underwriting result (UWR) increased by 208 million TL YoY and realized as -290 million TL in the second quarter of 2023.
- The combined ratio improved by 30pp YoY and resulted as 126% in the second quarter of 2023. The decrease in the combined ratio comes entirely from the loss ratio which decreased to 102% in the second quarter of 2023.

- With the Constitutional Court's cancellation decision of the General Conditions of Compulsory MTPL Insurance, there will be a negative impact on insurance technical profit arising from bodily damages.
- Net financial income, including FX gain/loss and financial expenses, increased by 221% compared to the second quarter of 2022 and realized as 1,037 million TL. Along with 59m TL in the second quarter of 2023, the tax shield created through tax advantage funds in the first six months of 2023 reached 95m TL.

Financial Highlights (m TL)	1Q22	1Q23	YoY	2Q22	2Q23	YoY	HY22	HY23	YoY
GWP	2.482	5.171	108%	3.027	5.945	96%	5.509	11.117	102%
UWR	-490	47	110%	-498	-290	42%	-988	-242	75%
Expenses	-101	-257	-154%	-103	-227	120%	-204	-484	137%
Net Financial Income	273	366	34%	323	1.037	221%	596	1.403	135%
Net Profit	**-254**	**131**	**152%**	**-192**	**454**	**337%**	**-446**	**585**	**231%**
Combined Ratio	*164%*	*112%*	*-52pp*	*156%*	*126%*	*-30pp*	*160%*	*120%*	*-40pp*

- In the second quarter 2023, Aksigorta AuM increased by 108% YoY and reached 9.4 billion TL. Thanks to successful fund management, annualized return yield (interest + FX) was 60% in the second quarter of 2023.

Expectations and Goals

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 1.262 new agencies are added to our network which generate 28% of total agency GWP
- # of agencies reached ~3.700 in the second quarter of 2023
- Increase in bank channel penetration with the complementary health product
- Following corporate business potential closely
- 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
- Reducing portfolio weight of loss-making products
- Usage of robotic process automation (currently 171 processes are automated corresponding to 2,4m transactions and 170+ FTE in Jan.23-Jun.23 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

<u>Q&A</u>

The following questions were raised during the earnings call:

Q: Why is the combined ratio so high?
CFO: We are having struggle in both the MTPL and in non-motor also. In non-motor other than the effect of the earthquake, which is coming from reinsurance cost, we are having an incredibly large claim. This is one of the main reasons for the increase in the loss ratio which drives the combined ratio up. This is one of the main explanations together with the MTPL and the deteriorations in non-motor claims.
CEO: In addition to the earthquake, we are having lots of other claims as well. Particularly floods, all over the Turkey in the Black Sea region and the South Anatolia. Non-motor has also brought some big size claims in the first half as we predicted. On the MOD and the health side, combined ratio is getting better. In the second half of this year, in non-motor performance will be getting better.
CSO: Combined ratio is the financial combined ratio. In terms of underwriting year, the combined ratio is not that much high. Because of the run-off impact, coming from cancellation of general conditions, minimum wage hike etc. MTPL claims average duration is almost 3 years but claim files extend up to almost 10 years. Until we finally close those files, they will inflate by minimum wage increases, regulation changes and cost changes etc. There is a big portion of run off impact on the MTPL side, excluding that part, the current underwriting year combined ratio is not that much high.

Q: Did you find equities so risky is to limit the exposure to 5%?
CFO: We plan to increase the portion of equities in our total portfolio to 5% firstly, then we will move up to 7.5% till the remainder of the year. We don't have 5% maximum limit. Currently, we are planning to invest less than 10% in equities. Since we have the risk and return appetite already settled in our investment policy, equity share is limited. Because of the higher risk coefficient assigned to equities for the calculation of capital adequacy ratio also, we do not allocate large portion of AuM in equities., We have been gaining +20 million for each month in equity trading this year. We are seeing opportunity in equities.

Q: Could you please elaborate about the “Switch to free tariff in MTPL”?
CEO: MTPL is a tariff product. All process is determined by the Regulator. This tariff is adjusted in a frequent manner. Each time, it takes a lot of time to negotiate with the Regulator to make a price adjustment in MTPL. We are forcing the Regulator to switch to free tariff in MTPL. Free tariff is where price will be determined by the insurance companies. The Regulator has announced the roadmap for MTPL, they want to go to the free tariff in 2025. We are asking from the Regulator to implement free tariff before 2024.

Q: Do you have any guidance for RoE for the 2023?
CFO: We do not have any guidance for the year end. We can say that we expect to stay at similar RoE level as of June. We can say that we have a target to stick to 40% of RoE by the year end.

Q: What is your outlook for 2H23? Will you be able to provide earnings guidance?
CFO: Unfortunately, we do not year-end guidance because of the changing macroeconomic conditions and unforeseeable regulatory changes.