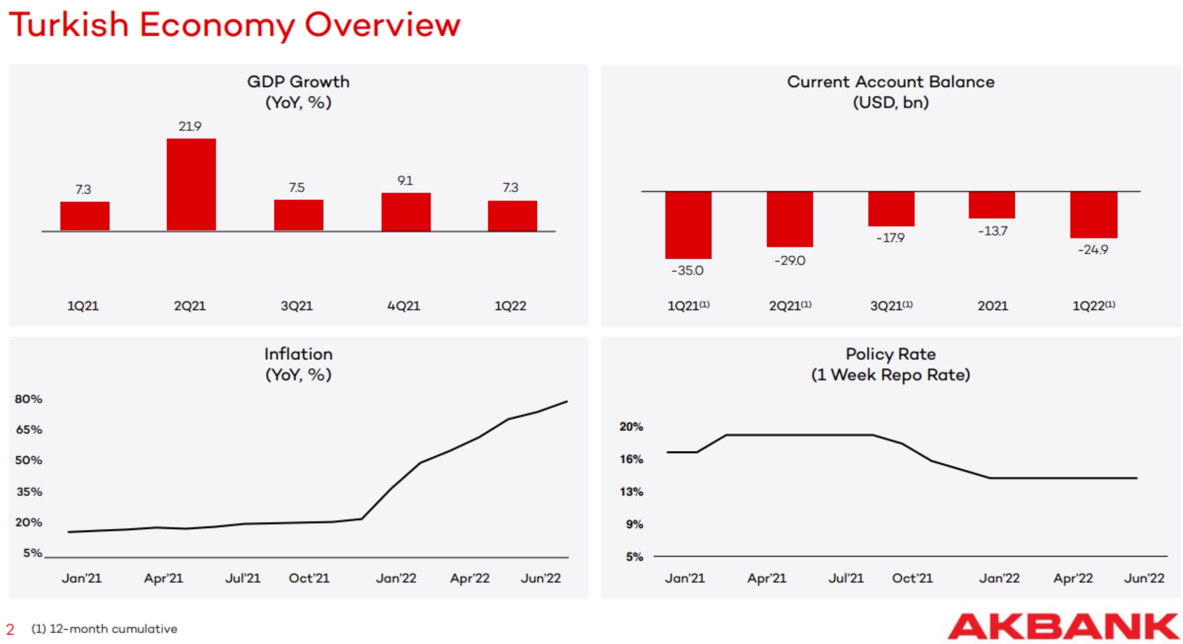

AKBANK
2Q22 Earnings Call
Management Discussion
27 July 2022
Participants:
Hakan Binbaşgil, CEO
Türker Tunalı, CFO
Ebru Güvenir, SVP, IR & Sustainability
Nazlı Çelem, VP, IR



Dear friends, this is Hakan here. And thank you very much for joining our Second Quarter 2022 Earnings Call.

And I hope you are all well. And I have, as usual, Turker, Ebru and the IR team with me. And before leaving the floor to Ebru, I would like to say a few words about the macro environment that we're in and also our solid second quarter performance.

Regarding the macro, challenges do remain, both for the world and also for Turkey. And, obviously, world is going through a very high inflationary period. FED, ECB and other central banks have already started rate hikes, which means additional challenges to global funding and especially for the EMs. World economic activity has started to slow down, especially in the second quarter this year and institutions like OECD, World Bank, have already started lowering their growth forecasts for the year.

Regarding our country, we still have solid growth when we look at the GDP growth in the first quarter it was around 7.3%, and this was due to private consumption and net exports. And CBRT expects robust growth for the second quarter.

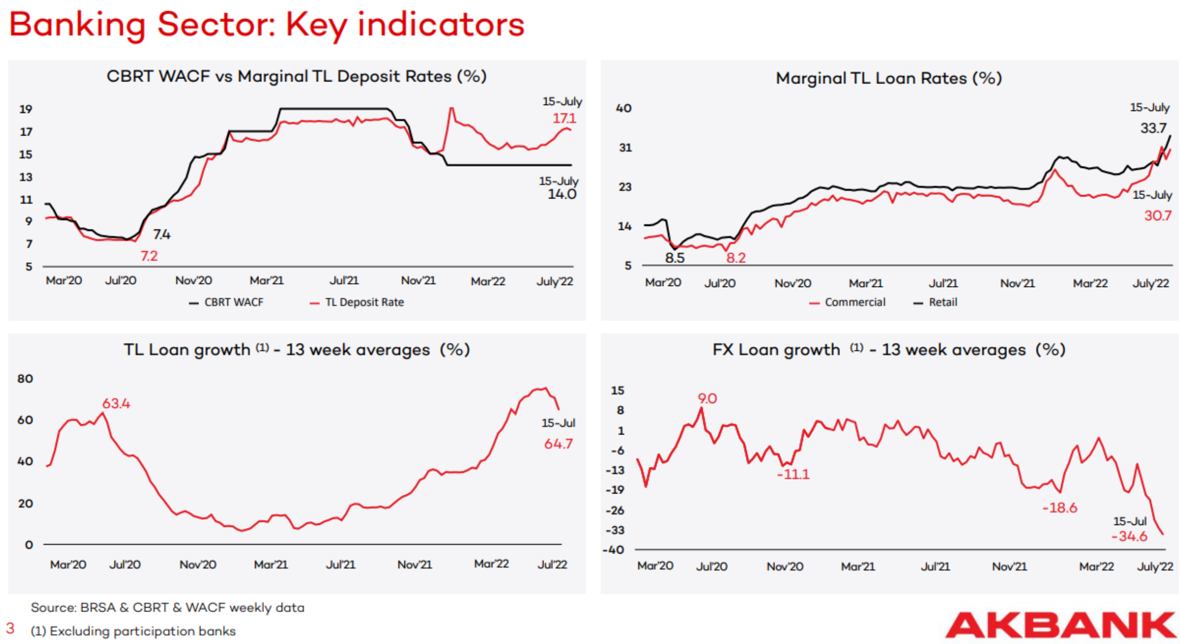
Regarding the current account deficit, we have both positive and negative developments. On the positive side, we expect the tourism revenues to exceed 2019 levels, therefore, this year we may reach around $35 billion in tourism revenues. That's actually a significant number.

On the positive side, if you look at the level of exports so far it was very good, reaching almost $250 billion for the last 12 months.

On the negative side though, we have high energy and commodity prices. And the likelihood of slowdown in economic activity of our main trade partners, especially

Europe, is a potential threat for our exports. And we are likely to end the year with a deficit of around 4.5%.

Inflation is our major problem in the country and that is driven by high energy costs, high global commodities and food prices. Last, but not the least, the impact of currency.



When we look at the banking sector, banks are healthy and this new deposit scheme has already exceeded roughly 1 trillion Turkish Lira, which is almost like 50% of TL time deposits in the country. And this has helped the banks to improve their local currency LDR and extend their deposit maturities.

When we look at the loans, local currency loans were up by 34% at the end of the second quarter. The local currency business banking loans grew by 41% and consumer loans were up around 17%. And when we look at the FX loans, the growth was negative, around minus 8%.

Following BRSA regulations and CBRT macro prudential measures, there has been an increase in both TL funding and lending rates and there is now some slowdown in loan activity, in loan growth.

Regarding our bank, Akbank, despite all the volatility and challenging market conditions, our strategic priorities have always remained intact. And we are one of the best-positioned banks in this environment.

We have robust capital, which is the highest among peers, we have solid liquidity, we have low leverage, we have the highest level of efficiency and we have low operating cost base.

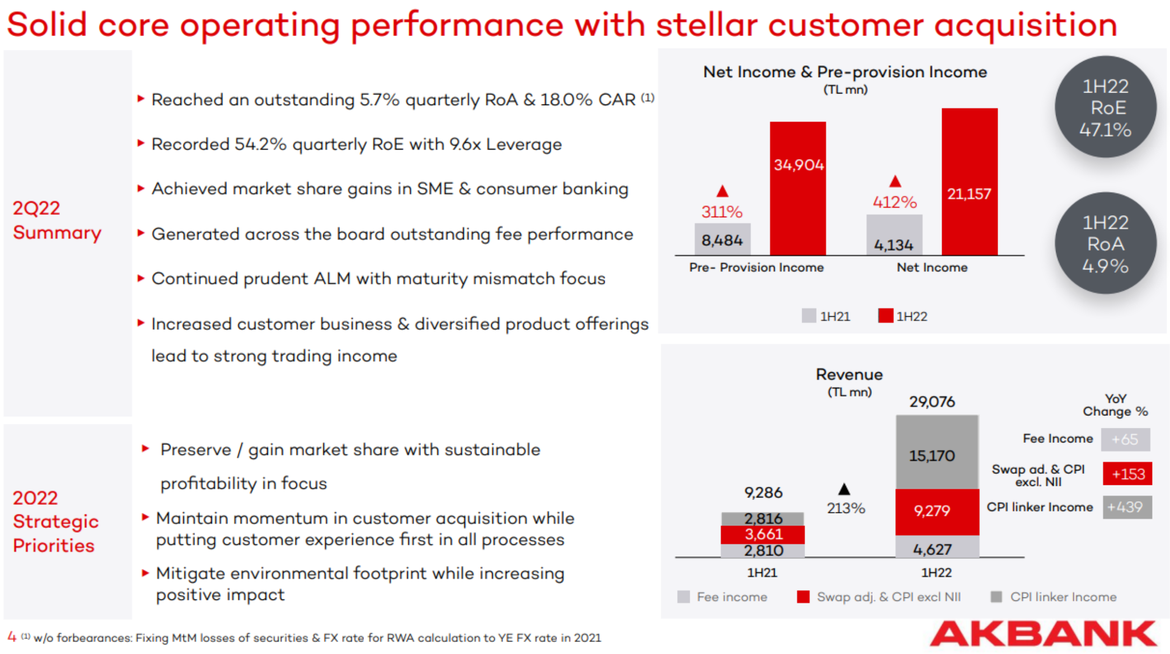
And our several years of consistent investments in technology and our people were critical in this. And with our new organization structure, now we have a more holistic, much more analytical approach in our banking practice. And all these have been reflected into our solid numbers, which Ebru share with you shortly.

Despite the challenges, there's a lot of dynamism and motivation at our bank, at every level. We had significant customer acquisition, especially over the last three quarters and significant market share gains. And we have achieved all-time high quarterly customer acquisition in the second quarter. And this was three times that of the same period last year. This resulted in a remarkable, 1 million additional active customers year-to-date, which is a record number. And there is noteworthy contribution coming from the digital.

And today, one out of two new to bank customers was acquired through digital during the quarter. And I'm really very happy for this since we have been focusing on digital for so many years and investing so heavily. And our subsidiaries also did very well.

In short, we positioned the bank to generate long-term, stakeholder value and our momentum across the board is likely to continue.

And on that note, I'd like to leave the floor to Ebru, who will share the details of our solid second quarter financials. Ebru, the stage is yours.



Thank you, Hakan, and hi, everybody. And thank you for joining our second quarter earnings call.

Our 1st half net income was up more than 5 times yoy to 21 billion 1 hundred and 56 million TL.

We achieved an eye-catching 4.9 % ROA and around 47.1% ROE for the 1st half.

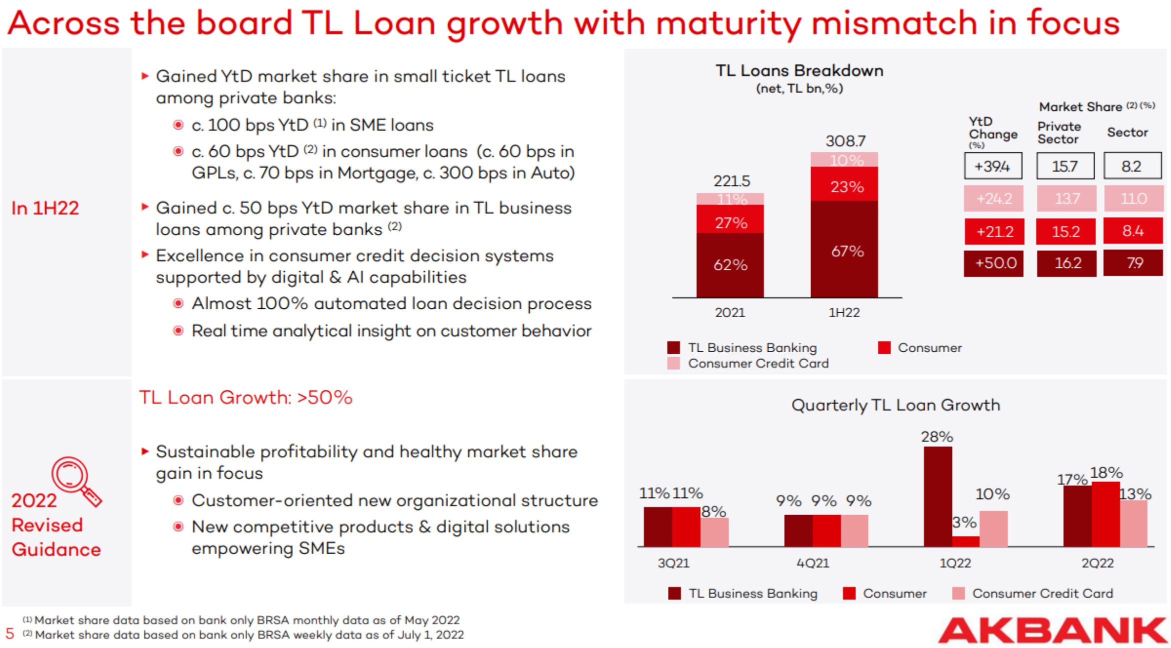
Our quarterly ROA and ROE were even higher at 5.7% and 54.2%.

We have also further built capital during quarter, reaching a robust figure of 18%, which will continue to provide the bank significant competitive advantage going forward.

Contributors to this outstanding performance were across board, as guided.

That being said, our solid performance so far, which is well ahead of our guidance, has led us to revise our FY guidance for the year.

So let’s now dive deeper into the numbers.



Our TL loans were up 39% ytd, where our focus remained on maturity mismatch as well as lucrative small tickets. Main contributor ytd was business banking up 50%.

In business banking, once again - I would especially like to highlight our success in the SME segment, where we gained around 100bps market share among private banks ytd.

Our new structure implemented at the beginning of the year with a 360 degrees customer focused organization, and comprehensive SME movement package, designed to empower SME's, continue to be supportive factors in this success.

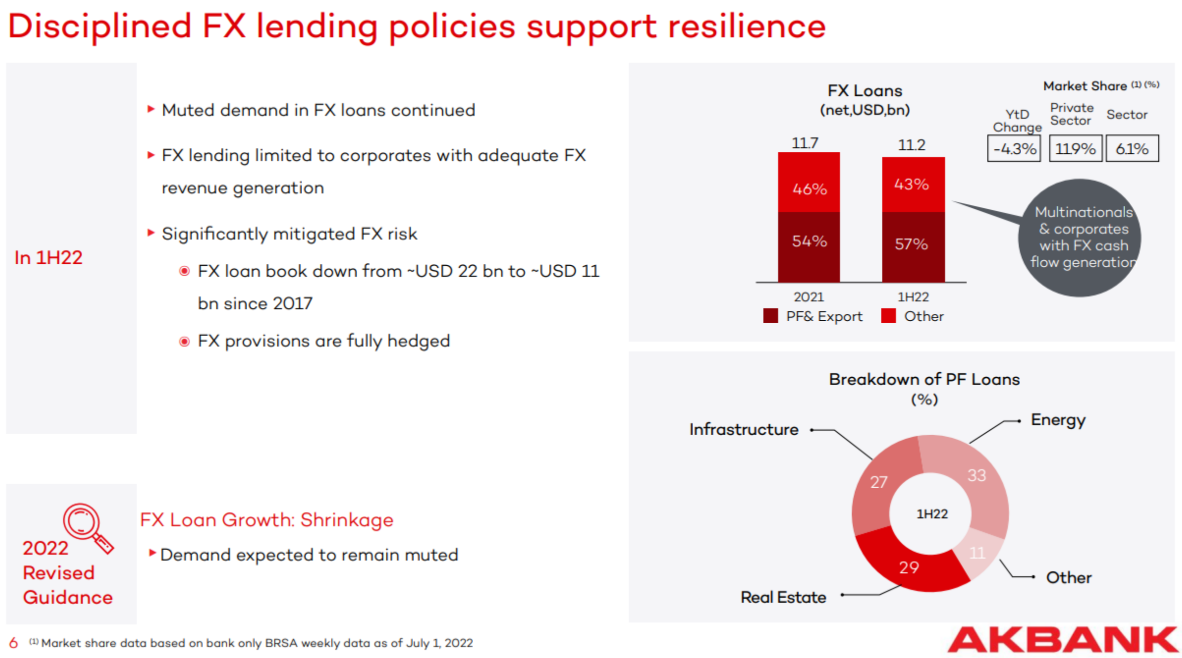
Following our consecutive market share gains in consumer loans of 160 bps last year, we gained another 60bps market share ytd.

Market share gains in the consumer segment were across the board: 60bps in GPL, 70bps in mortgages and 300bps in auto loans

Due to the global uncertainties, while growing, we have been very careful in our maturity mismatch.

To that extend we have been active in variable loans such as CGF. TL 7bn of CGF loans have been granted during 1st half. These are small ticket loans, which are all variable.

Please note that taking into consideration our 1H performance, we have revised our TL loan growth guidance to over 50%.

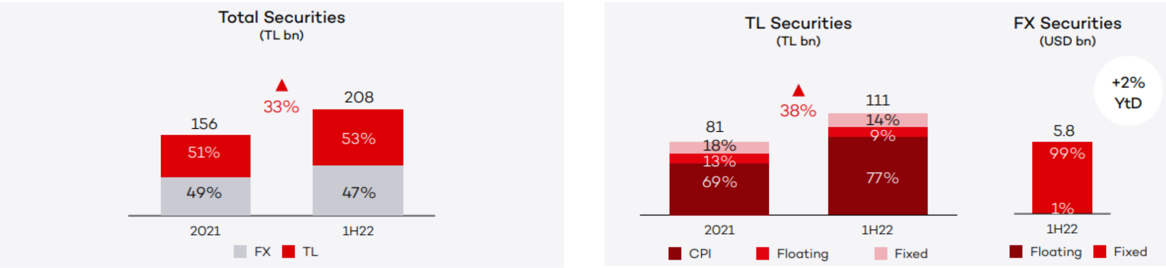


Our net FX loans were down by 4% ytd

Our market share among private banks has declined by 1ppt ytd, to below 12%.

We still observe muted demand for investment loans. Also given volatile currency environment, we do not expect imminent change to this trend, therefore, we now expect a shrinkage in FC loans for the year.

Proactively built CPI-linker portfolio provides hedge against higher inflation backdrop



- CPI linkers & FRN 86% of TL Securities
- CPI linkers at TL 85 bn reaching 83% of equity
  - Majority classified under Financial Assets Measured at Amortized Cost
  - To mitigate negative impact of inflation accounting, once implemented
  - 2022 Oct-Oct CPI linker valuation estimate: 50%
  - Every +1% CPI has c. TL 430 mn NI and +7 bps NIM & +40 bps ROE impact

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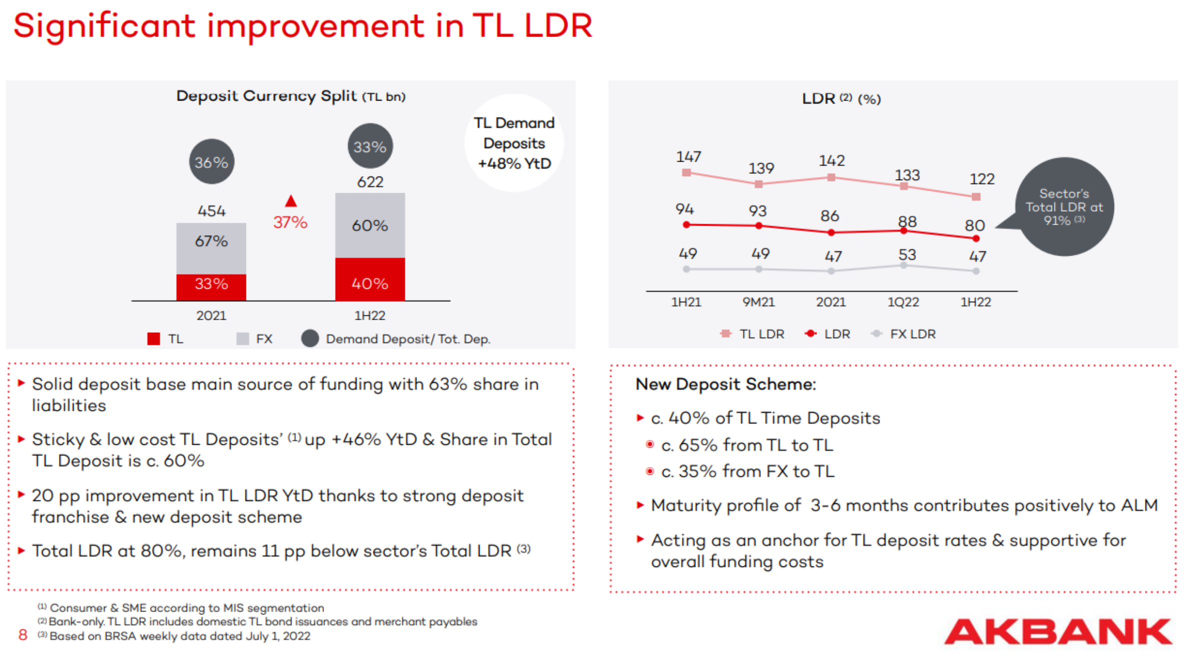
Our Treasury's proactive positioning in CPI-linkers continues to work as hedge.

The fixed portion of our TL securities stands at a low 14%. Ytd increase in TL securities took place due to CPI linkers, which are now 77% of the total.

Our main purchases took place in January, after which we maintained our market share. This portfolio, which equates to 85 bn TL, is mainly classified under financial assets measured at amortized cost and has reached 86% of the total equity. This positioning will help mitigate the negative impact of inflation accounting if/when implemented.

As you may remember, our Oct-Oct CPI-linker valuation estimate was 30% in our guidance, which we had revised to 35% in 1Q. Taking into consideration recent trends, as of 2Q we have revised it to 50%. Every additional 1% CPI will have around TL 430 mn NI, 7 bps NIM and 40 bps ROE impact. Therefore, along with our customer based revenue growth, CPI-linkers continue to be a supportive factor for NII.

Our FC securities, were up only 2% ytd and worth to note that we are hedged against global rate hikes.



On the funding, we maintained our focus on well-diversified and disciplined funding mix. Deposits continue to be our main source of funding reaching 63% of total liabilities.

Our TL deposits were up strongly by 65%, increasing its share in our total deposits and resulting in an eye-catching 20 ppts improvement in our TL LDR to 122%.

Our solid customer franchise, customer acquisition along with the new deposit scheme were supportive factors.

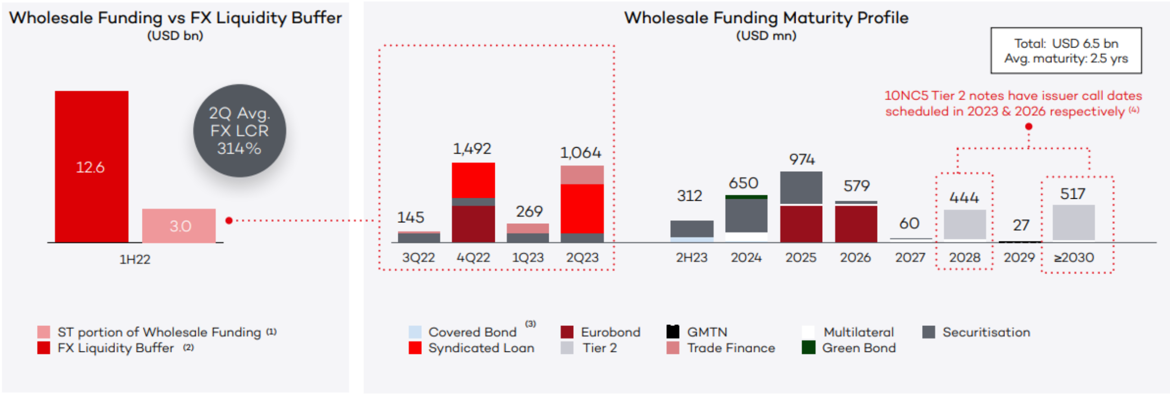
The new deposit scheme has reached over 40% of our TL time deposits. The renewal of the ones that have been maturing have been strong.

Worth to mention that our sticky low cost TL deposits & zero cost demand deposits were up by 46% and 48% ytd, respectively.

Our FC deposits, on the other hand, were down slightly by 2% ytd in USD terms.

However, our sound FX liquidity with an FX LDR of 47% remains as one of our strong muscles.

ESG remains key priority in wholesale funding



Total sustainable funding share in wholesale transactions are at 45%

As communicated regularly to our investors, we continuously evaluate opportunities as part of our prudent and diligent liquidity and capital management and to duly take the necessary actions. In this regard, we continuously monitor windows of opportunities to issue debt instruments in Turkish lira or foreign currency, domestically or abroad, including senior and/or Tier 2 issuances. We will promptly inform our investors on any developments accordingly.

Balances based on principal outstanding and bank-only MIS data
(1) ≤ 1 year tenor
(2) Consolidated FX liquidity buffer includes FX reserves under ROM, swaps, money market placements and CBRT eligible unencumbered securities
(3) USD equivalent of TL 1.4 bn Covered Bond issuances
(4) Call exercise in year 5 is subject to BRSA approval

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We kept our balanced funding profile along with robust FC liquidity.

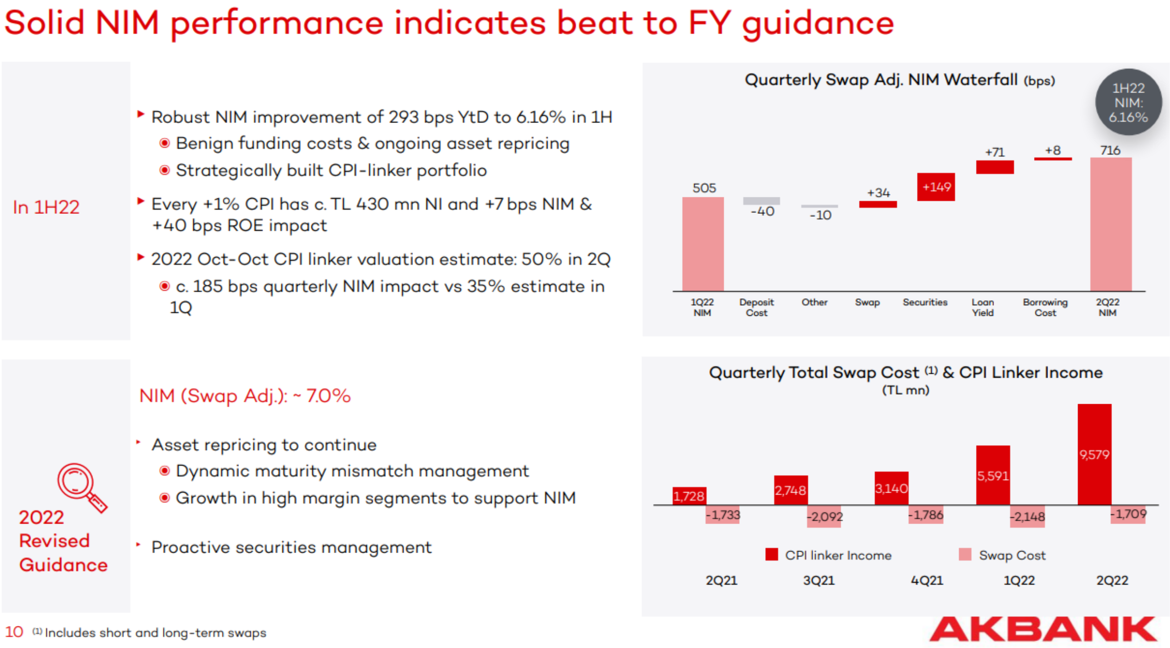
Our 2Q average FC LCR was solid at 314%. And our FC liquidity buffer is noteworthy at around USD 13bn, versus our next 12 months rollovers around USD 3bn indicating around 4x liquidity buffer.

Of the USD 3bn due within the next year USD 1.4bn is syndicated loans. For the 2nd half of the year, we will be in the market for the roll-over of our syndicated loan in September.

Details will be determined closer to the date in line with discussions with our lender banks.

In addition, as usual, due to our ample FX liquidity and low FX loan demand we may monitor capital markets on an opportunistic basis, subject to market conditions.

Prioritizing sustainable funding while extending overall maturity.



Our dynamic asset liability management, benign funding costs, ongoing asset repricing as well as our strategic & timely positioning in CPI-linkers have all contributed to our 293 basis ytd NIM improvement to 6.16%.

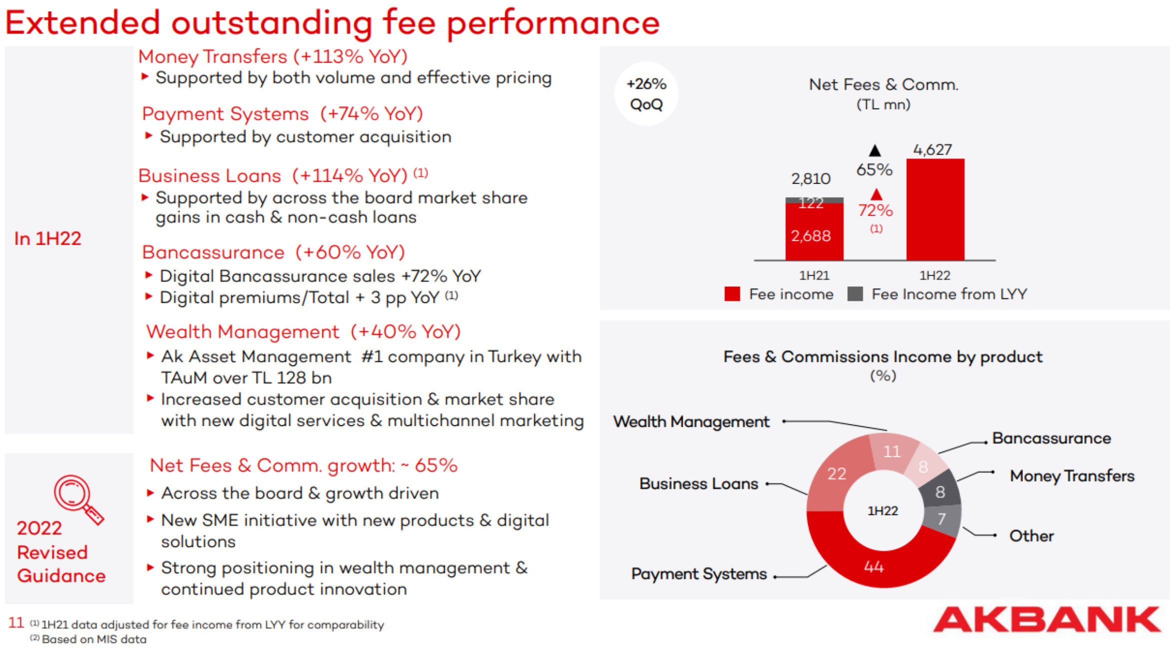
This solid performance is well ahead of our 150bps guidance. Our 2Q NIM stands at 716bps.

Looking at our back book and front book lending rates, there is still significant room for asset repricing.

As for the funding side, due to tightening global liquidity conditions as well as the macro-prudential measures implemented locally, both FC and TL funding costs have already started to trail higher.

Still, taking into consideration our stellar 1H performance, we have revised our FY swap adjusted NIM guidance to around 7%.

Please note that our new NIM guidance is based on 65% Oct-Oct inflation assumption, versus 30% at the beginning of the year.



On the commission revenue side, we further excelled our outstanding performance across the board, up 65% yoy well ahead of our guidance.

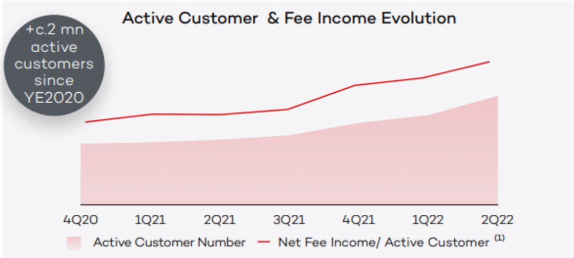
As you can recall, last year in 1Q we had a one-off commission gain from LYY. Adjusted for that, our yoy fee income was even more eye-catching at 72%.

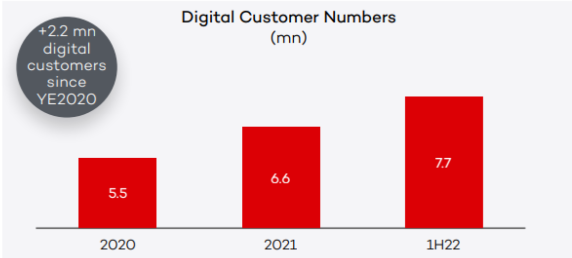
As you can see on this slide, all businesses have positively contributed to the revenue base indicating the sustainability of our fee generation.

Reasons behind this accomplishment: Customer oriented solutions leading to customer acquisition, product innovation and diversity, increased transactions, pricing due to either ccy or inflation, and, the success of our digital channels all played a role

As a result, we have revised our FY fee income growth guidance to around 65%.

All time high quarterly customer acquisition





In 1H22:

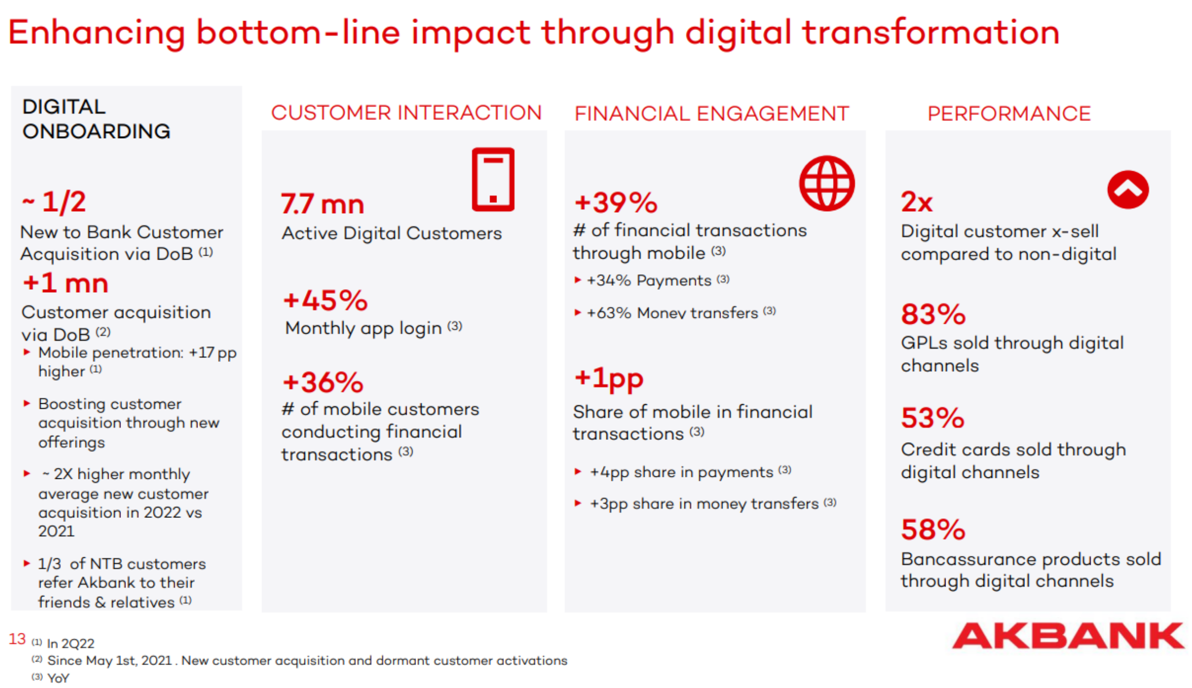
- Added 1 mn new active customers
- Avg. monthly new customer acquisition 3x YoY
- Avg. monthly customer activation rate 1.5x YoY
- Reached all time high digital customer penetration

… **supportive for sustainable revenue generation**

12 (1) Based on MIS data

As Hakan Bey mentioned earlier, we once again achieved record high customer acquisition, adding 1 million active customers ytd.

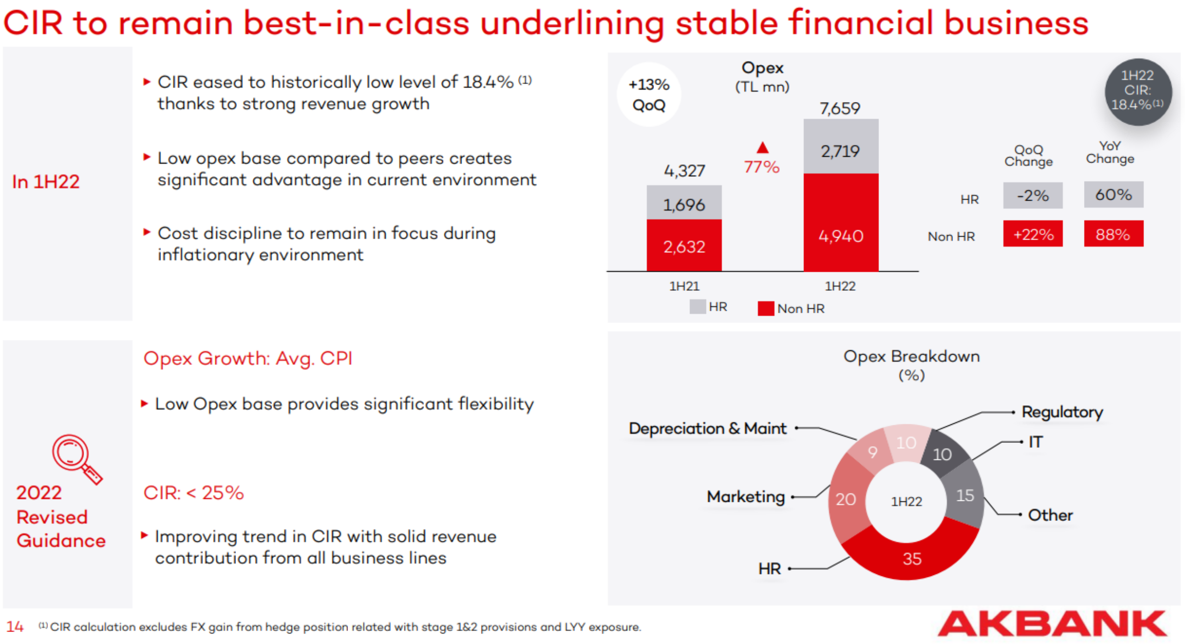
Our monthly number of customers from which we collect commission is at all time high, which solidifies our fee performance for the coming periods.



Our digital strategy- which is based on our customer's journey, has been a key enabler for us to achieve record-breaking net customer growth for three consecutive quarters.

1 out of 2 New to Bank customer acquisition was realized through Digital on Boarding

Customer growth will continue to be reflected to our numbers.

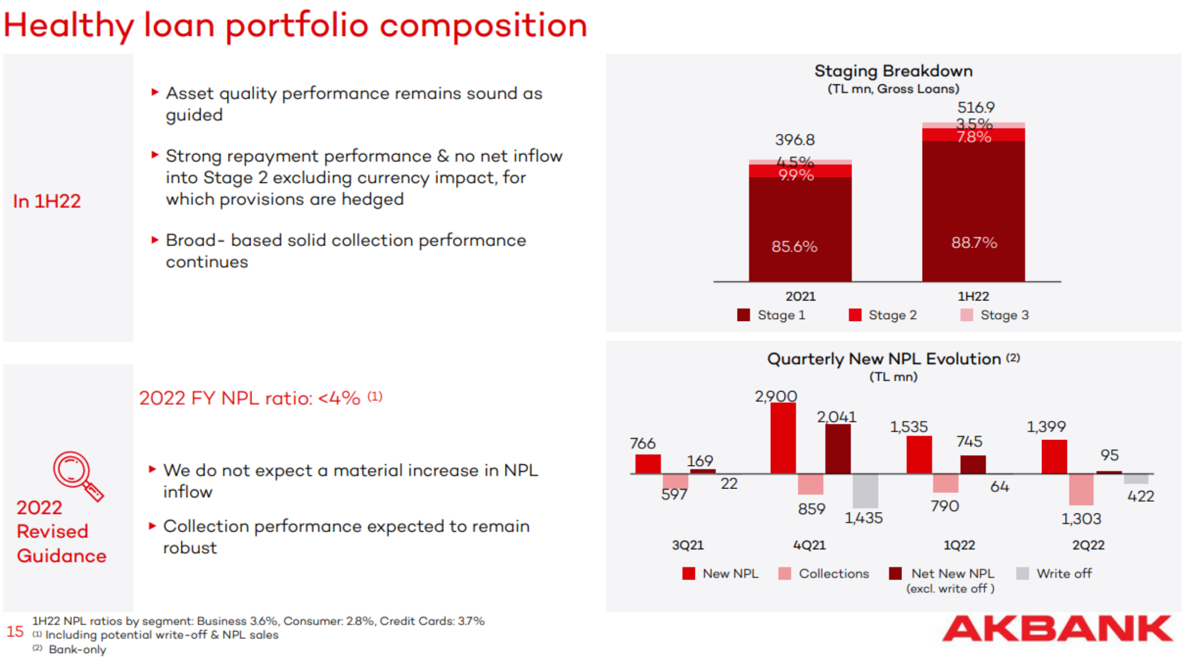


Challenges remain on the opex side due to both high global inflationary pressure as well as pass-through of weaker currency.

Still, our relatively low cost base versus peers gives the bank significant competitive advantage, and more flexibility.

With our solid revenue generation, CIR further improved to historical low level of 18%, this level is obviously not sustainable in the long-term.

That being said, taking into consideration our 1H performance, we have revised our FY CIR to below 25%.



Our loan portfolio continues to perform well.

Ytd there hasn't been any net inflow into stage 2, when excluded for currency impact and as you know, FC provisions are hedged.

Therefore, our stage 2 declined to 7.8% of gross loans, down 2pp ytd.

I would like to underline that repayment performance remains strong.

As for stage 3, the inflows were broad-based, and collection performance remains robust while our net NPL inflow as at only TL 95million.

Going forward, we don't expect a material increase in NPL inflows, therefore have revised our NPL guidance to below 4% for this year.

CoC evolution demonstrates long-term proactive risk management

In 1H22

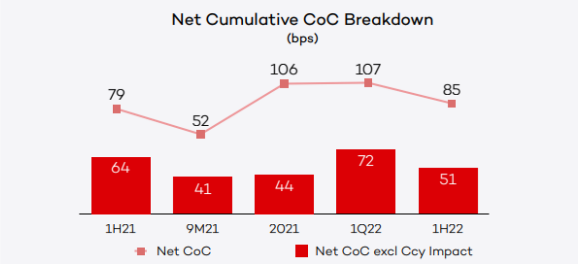
- CoC performance underlines proactive provisioning & healthy portfolio composition
  - Positive impact coming from improved collateral values & ongoing strong collections
  - 20 bps impact in CoC due to model recalibration
- Maintained solid coverage ratios with further provision build
- FX provisions are hedged

(%)	2021	1H22
Stage 1 Coverage	0.5	0.5
Stage 2 Coverage	14.0	15.5
Stage 3 Coverage (1)	65.3	68.2
Free Provisions	TL 1,400 mn	TL 1,400 mn
Total Provision Build (2)	TL 18.7 bn	TL 20.9 bn

2022 Revised Guidance

2022 CoC (excl. Currency): ~ 100 bps

- Significant provision build & solid collateral values to limit additional provision need
- No change expected in coverages



16 (1) Adjusted for TL 1.4 bn write-off in 4Q21 Stage 3 Coverage ratio is 67.9%
(2) Excluding MtM for LYY & free provisions

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Our CoC evolution underlines our proactive provisioning as well as our healthy loan composition.

We had a model updates in both 1Q and 2Q , which had 20 bps impact on 1H net CoC.

Solid repayments, especially ongoing strong collection performance as well as improved collateral values, contribute positively to our CoC evolution.

As a result, our 1H net CoC excluding currency has remained low at 51 bps, underlining our strong risk discipline through the cycle.

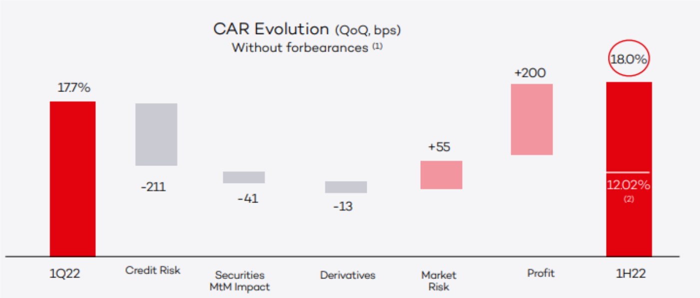
Including currency impact, our net COC would be at 85 bps.

Despite our solid loan growth, coverage ratio for stage 1 remains flat vs YE, but has increased slightly for both stage 2 and stage 3

We believe our significant provision build limit the need for additional provisions.

However, to be on the conservative side, we maintain our around 100bps net CoC, excluding ccy impact guidance for the year.

Superior capital buffers provide significant competitive advantage to unlock franchise power



Sensitivity of Solvency Ratios:

- 10% TL depreciation: c. 70 bps
- 1% NPL increase: c. 30 bps

(%, TL bn)	CAR	Excess Capital [3]	Tier 1	Excess Tier 1 [3]	CET-1	Excess CET-1[3]
Without forbearances [1]	18.0%	38.9	14.7%	30.4	14.7%	40.2
With forbearances [1]	20.4%	50.2	16.8%	41.2	16.8%	50.2

(1) Fixing MtM losses of securities & FX rate for RWA calculation to YE FX rate in 2021
(2) Min Basel III required: Including buffers (Capital Conservation Buffer: 2.50%, D-SIB Buffer: 1.50%, Countercyclical Capital Buffer: 0.02%)
(3) Basel III min. requirements: CAR: 12.02%, Tier-1: 10.02%, CET-1 8.52%

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Record high profitability also reflected onto capital position as our internal capital generation added 323 bps to our total Capital ytd.

Excluding BRSA forbearances, our total capital further improved by 30bps to 18%.

Compared to 2021YE our total capital is up by 80bps.

And please note that this improvement was despite:

Repayment of Tier 2 during 1Q and significant growth

Also, I would like to underline the 180bps ytd improvement in our Tier 1 and CET 1 ratios to 14.7%.

Our sound capital buffers serve as shield against unprecedented challenges and volatility, and also create significant ammunition for sustainable profitable growth.

Our important competitive advantage on the Capital side continues at full pace.

2022 Revised Outlook: Financial strength & operational resilience remains intact

	Previous 2022B	Revised 2022B	1H22
TL Loan Growth	~ 30%	> 50%	39.4%
FX Loan Growth (in USD)	Flattish	Shrinkage	-4.3%
NIM (swap adj.)	~150 bps improvement	~ 7.0%	6.2%
Net fees&com. growth	> 35%	~ 65%	64.7%
Opex growth	Avg. CPI	Avg. CPI	77.0%
Cost/ income (1)	< 33%	< 25%	18.4%
NPL (2)	~ 4%	< 4%	3.5%
Net total CoC (excl. ccy impact)	~ 100 bps	~ 100 bps	51 bps
ROE	~ 30%	~ 50%	47.1%

1H22 Cheat sheet

18 (1) CIR calculation excludes FX gain from hedge position related with stage 1&2 provisions and LYY exposure
(2) Including potential write-off & NPL sales

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On this slide, you may find the summary of our financial performance.

I am very to share that we have outperformed on every metric. Which has led us to revise our FY guidance resulting in a revised FY ROE of 50%.

Turker the floor is now yours for inflation accounting.

Inflation accounting key highlights

Non-monetary items are restated by applying change in CPI index since acquisition date & balance sheet date

- Restatement of Non-monetary assets (e.g. Fixed Assets, Intangibles) → **Monetary Gain** (MG)
- Restatement of Non-monetary liabilities (e.g. Paid in Capital, Retained Earnings) → **Monetary Loss** (ML)
- **MG- ML = Net Monetary Gain/ (Loss)**

Monetary items (Cash, Securities, Loans, Other Receivables, Deposits, Financial Liabilities, Other Liabilities) are not restated as they are already at the measuring unit at balance sheet date

	1H22	1H22 Restated [1] (ML not tax deductible)
ROE	47.1%	Mid-single digit
CAR (w/o forbearances)	18.0%	Positive impact

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[1] Based on draft calculations. CPI linker valuation is adjusted with 1H22 inflation consistent with overall inflation restatement

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Thank you Ebru, Hi everyone.

First of all, so far there has been no update on regulatory front with regard to switch into hyperinflationary accounting in Turkey. We are following the developments.

However, we have started to prepare ourselves on the topic and working on the details.

Here we want to share with you initial impact analysis on 1H results.

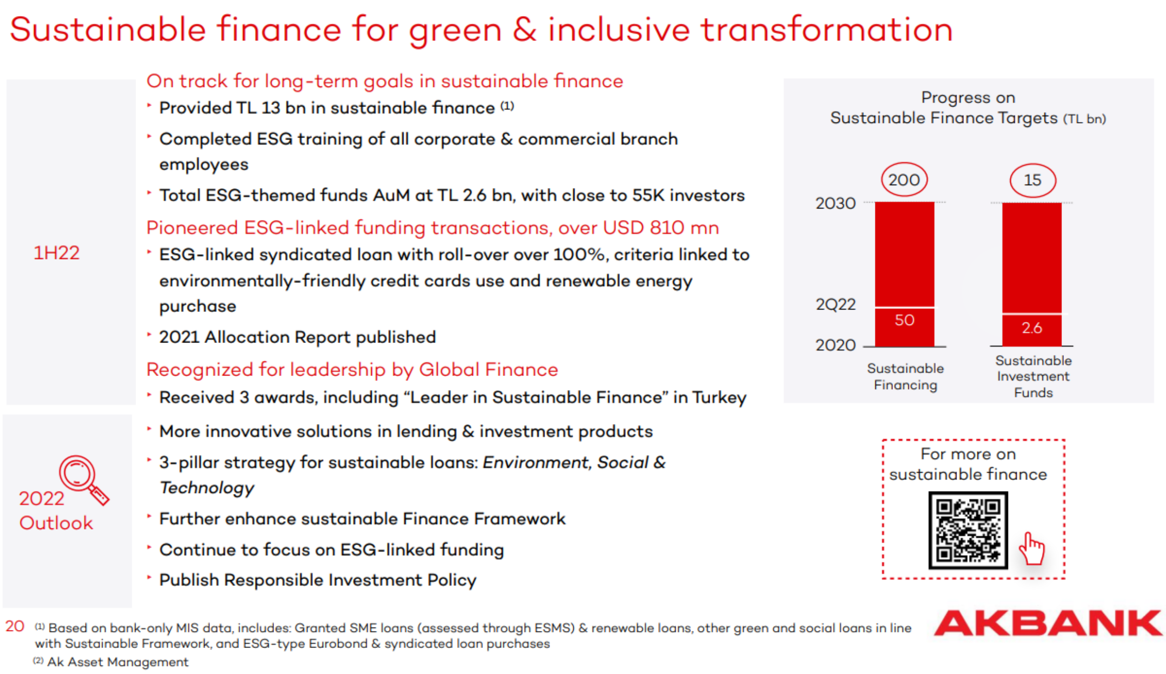
If we had applied inflationary accounting in the 1st half, our ROE would have been around mid-single digit levels.

This calculation excludes tax income from net monetary loss due to current local tax legislations. Adjusting for this impact, our restated ROE would increase to mid to high-teens.

On the other hand the CAR impact would have been positive.

Our detailed work is still ongoing in the coming quarters we hope to share more details.

Back to you Ebru.



And now, before moving onto Q&A I'd like to share briefly some of the key highlights of our 1H ESG performance.

In line with our long-term sustainability vision, we have continued to take concrete steps in order to further integrate sustainability to the way we do business.

To start off, we provided TL 23 bn sustainable finance in 1H22, moving closer to our long-term target of TL 200 bn.

Our impact-driven approach to Sustainable Finance was also recognized by Global Finance, with two regional and one country award, including "Leader in Sustainable Finance" for Turkey category.

Innovative products & services to enhance businesses and financial health

1H22

Empowered SMEs with financial support

- Over TL 500 mn provided to women-owned SMEs with EBRD cooperation
- New partnerships with e-commerce giants Hepsiburada, Çiçeksepeti
- Launched "SME Eco-transformation Package": 1st comprehensive sustainability package in Turkey for SMEs

Extended non-financial support for SMEs

- "Green transformation" themed seminars with UNDP and industry organizations Turkonfed & KAS to continue in 2022
- Collaboration with Frankfurt School and EBRD for woman-owned SMEs, with mentorship and thematic workshop
- E-SME Program for women entrepreneurs with TOBB and Akbank Transformation Academy

Helped youth in achieving financial health through digitalization

- 30% increase in active FAV users

2022 Outlook

- Launched first of its kind, comprehensive SME Movement Package in Turkey, empowering SMEs through digital solutions
- Akbank Transformation Academy to offer seminars, customized training programs, networking opportunities and collaborations for SMEs, to support their digital & green transformation

For more on how we empower SMEs

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We have also continued to support our ecosystem,

We provided both financial and non-financial support to SMEs, which are key drivers of growth and employment generation in the Turkish economy.

In Q2, we launched "SME Eco-Transformation Package", offering 7 different products to help SMEs achieve green transformation.

This package also includes campaigns to boost the awareness among SMEs and guide them in their green transformation journey

Empowering our people and communities

1H22

Further strengthened Diversity & Inclusion

- Strong gender balance: ~ 50% of CEO's direct reports women
- Zero Tolerance to Violence Guide published
- Expanded paid parental leave to 10 days for men
- Entered Bloomberg Gender Equality Index for 2nd time

Akbank Youth Academy upskilled our youth for the job market

- Reached 11K young people, partnerships with Microsoft, Pearson & UPSchool

Enacted impact-driven projects for our communities

- Endeavor Boost the Future Accelerator Program
- Social Impact Assessment completed for Akbank Youth Academy & Good State of the City

For more on D&I

2022 Outlook

- Continue efforts for a more diverse & inclusive workplace, with focus on women, youth, vulnerable groups
  - Flagship projects include "Strong Women in Technology" and "Accessible Akbank"
- Publish first impact report on community investments
- Launch digital platform for Akbank volunteers

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(1) Official Monetary and Financial Institutions Forum

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Supporting our communities is a part of our DNA.

In that respect, Akbank Youth Academy upskilled 11k young people for the job market with important partnerships.

Advance efforts to mitigate environmental footprint & manage climate risk

1H22

Net Zero Commitment by 2050

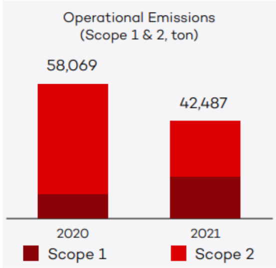
- E&S Risk Framework & Procedures updated in line with best practices, needs of stakeholders

Enhanced Environmental & Social Policies to mitigate portfolio exposure

- TCFD-aligned sectoral heat map physical & transition risks completed

On track to become carbon-neutral in operational emissions by 2025

- 80% of the bank's electricity sourced from renewable resources
- Environmental Policy published
- Sun panels installed at Data & Living Center, supplying 5% of electricity use
- ISO 50001 (Energy Management) & 14001 (Environmental Management) trainings completed in 250 branches in 2022 (c. 300 branches in total)



2022 Outlook

- Further integration of climate risks & opportunities to minimize portfolio exposure
- Expand ISO 50001 & 14000 certificates to include to more branches

For more, please see our integrated report

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As we have previously mentioned, we have started a crucial transformation project to further integrate E&S issues into our lending practices.

During Q2, we have updated our E&S Risk Framework & Procedures in line with best practices, international standards and needs of stakeholders

To fight climate change and help the environment, we have also published our Environmental Policy, outlining the approach to our direct and indirect environmental impact, commitments and practices.

Hakan Binbaşgil- Closing Remarks:

Thank you. So to summarize, I think there's a lot of momentum across all business lines in the bank and also subsidiaries actually especially customer acquisitions, growth, core revenue generation. It's not only the CPI-linker but the core revenue generation as well.

So as I have been repeating like in every meeting, Akbank is actually exceptionally well positioned for strong financial results despite the challenges actually. And also this is also true for the coming years. And I'm proud of our excellent balance sheet management, robust capital, solid liquidity. Highest level of efficiency, outstanding talent and technology.

And Ebru, as you have mentioned in your presentation, we will continue to support our ecosystem on that transformation to be a part of a greener and more inclusive economy.

So obviously we have challenges globally and locally but we have been actually through many, many cycles and I have full faith actually in our people's capacity and execution quality. And I would like to once again express my gratitude for their exceptional efforts.

And last but not least, I would also like to thank all our stakeholders, our investors for their consistent trust and confidence in us. So keep well and see you all again soon, hopefully physically. Thank you very much.