
AKBANK
2Q23 Earnings Call
Management Discussion
26 July 2023
Participants:
Türker Tunalı, CFO
Şebnem Muratoğlu, EVP Treasury
Ebru Güvenir, SVP IR & Sustainability
Gülçe Deniz, VP IR

Dear Friends,

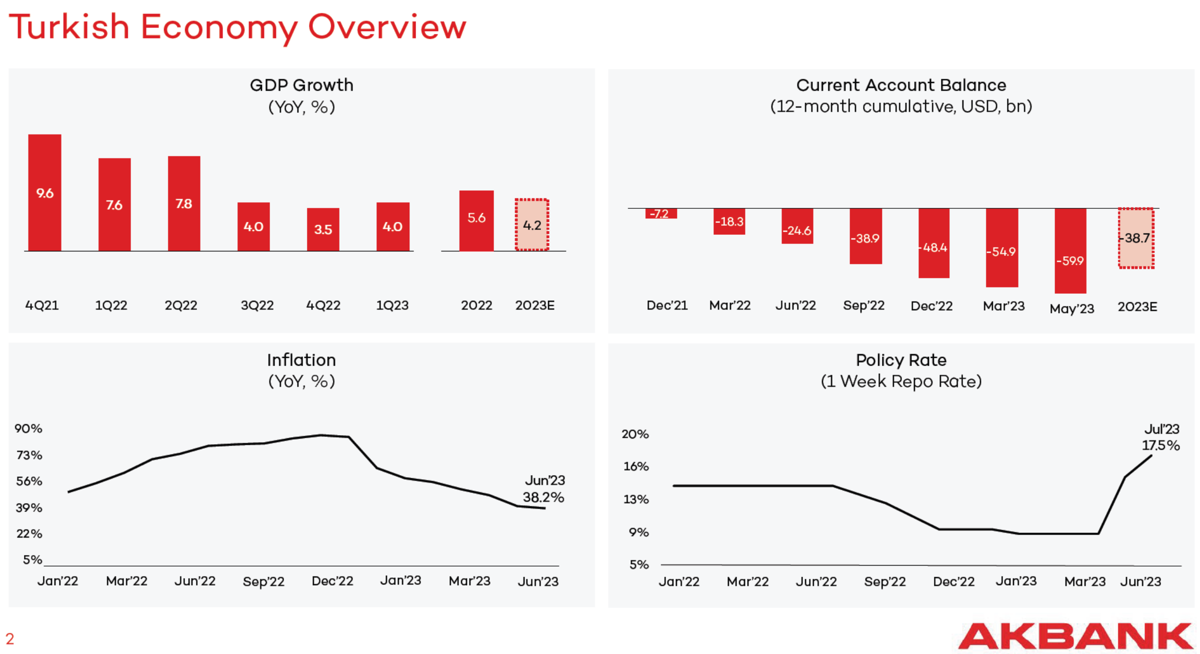
- **This is Ebru speaking, Head of IR and Sustainability.**

- **Thank you all, for joining to hear about our second quarter performance.**

- **I hope you are all well.**

- **Today, I have with me Türker our CFO, Şebnem our Head of Treasury and Gülçe, Cansel & Berçem from our IR team.**

- **Before moving onto our solid second quarter results in detail, I would like to share some highlights regarding the operating environment.**



- **Since our last call, global inflationary pressures have eased somewhat, but core inflation measures proved sticky at elevated levels.**

- **On the other hand, labor markets remained strong, and economic activity, particularly in services, defied recession expectations.**

- **The likelihood of a US recession has been revised downwards by various institutions.**

- **Following March and April, financial stability concerns have become more muted, and the prospects for advanced economy policy rates have re-adjusted toward the "tight for longer" phenomena, as was the case in February.**

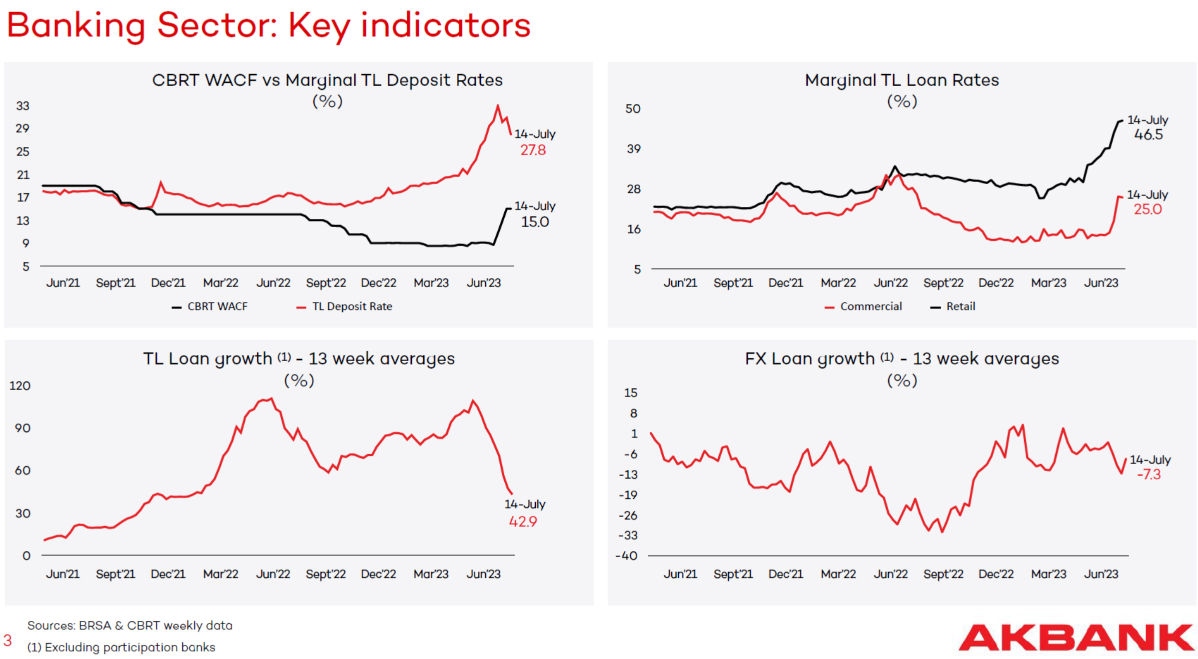
- **Turning to the domestic economy, the adverse impact of the earthquake on production and spending proved temporary, while the economic cost will continue to shape fiscal balances, economic growth and inflation in the medium-term.**
- **Given the recently introduced fiscal consolidation measures with broad-based increases in taxes, and the tightening in quantitative loan policies, we believe that the economy will be steered toward a rebalancing path regarding the pace and composition of aggregate demand.**

- **We contemplate a soft landing scenario for the second half of the year and project the GDP growth around 4% for the full year.**

- **The policy actions towards rebalancing along with the considerable adjustment in exchange rates are expected to facilitate an improvement in the current account balance, which will help mitigate the external financing needs for the rest of the year.**

- **Nevertheless, inflation pressures remain for the rest of the year, with the recent developments on exchange rates, the adjustments in taxes and administered prices, and the wage increases.**
- **Therefore, annual inflation probably troughed at 38% in June.**

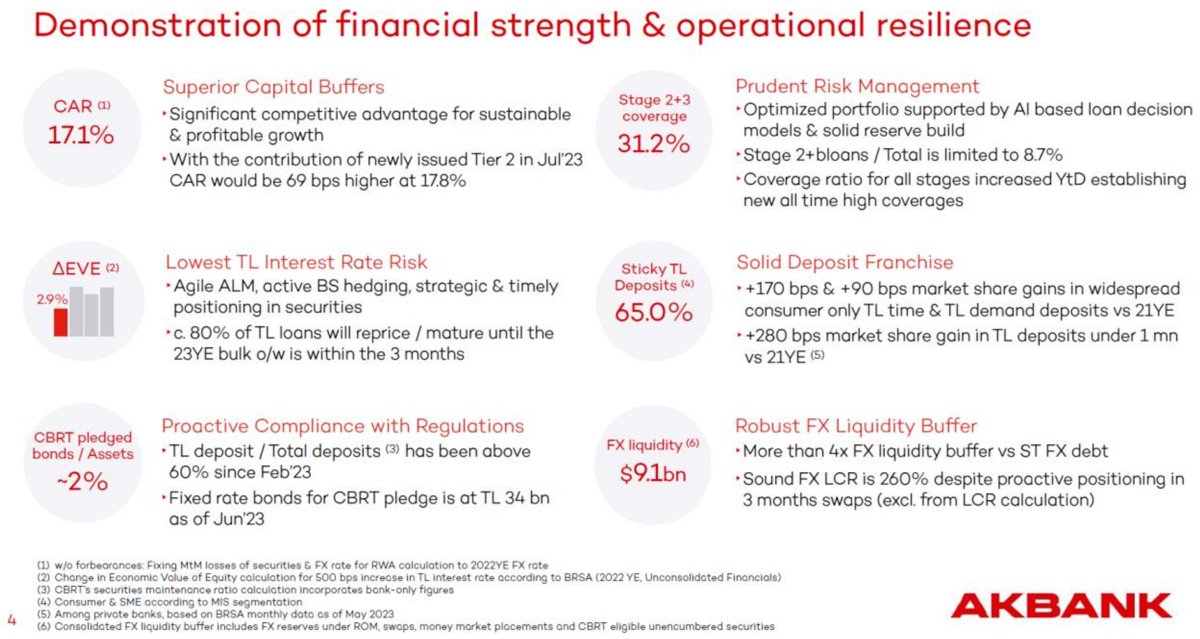
- **We project annual consumer inflation to be at high 50s by year-end.**



- **With the elections behind, there has been a policy shift toward normalization in central bank policy rate as well as the existing regulatory environment.**

- **The easing of the TL deposit ratio and the very recent adjustment in the loan rate cap multipliers is expected to support margins, which were eroded in the second quarter of the year.**

- **Despite these challenges, banks remain healthy and resilient with solid capital buffers and liquidity.**



- **Moving onto our strategic and agile balance sheet achievements.**

- **We continue to have superior capital buffers and with our newly issued July tier 2, our CAR would even be higher at 17.8%.**

- **While growing, key focus remained on keeping our balance sheet intact, by avoiding maturity mismatch, and keeping long duration, fixed-rate bond purchases at minimum levels.**

- **Our strategy resulted in total size of fixed rate bond purchases for CBRT pledge to be limited at only 2% of our total assets, which has been lowest among peers.**

- **With regards to the regulations, banks have implemented different strategies, making short-term core spread evolution, and growth trend comparison difficult.**

- **With latest normalization steps of CBRT, going forward comparability will also be simplified.**

- **Due to rising TL time deposit costs, avoiding fixed rate bond purchases had some negative impact on our NIM, which is temporary.**

- **We made a choice for long-term vs short-term profitability, and protected our capital for future profitable growth.**

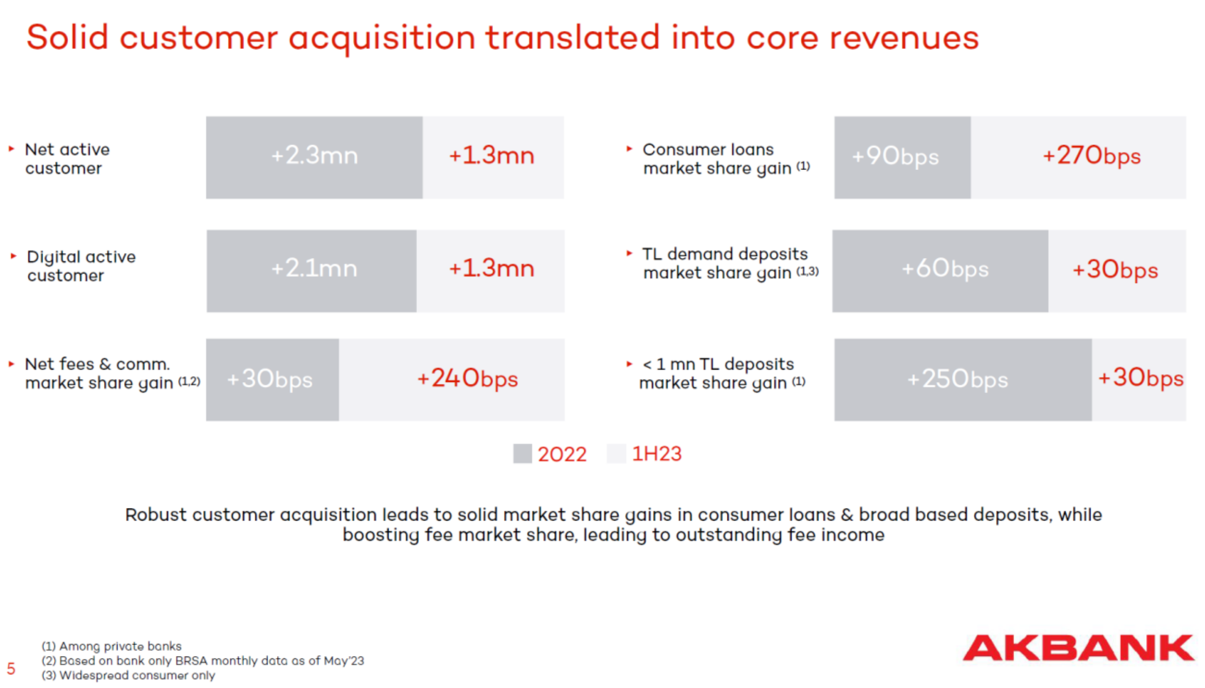
- I am happy to share that, we have already started to see improvement in our marginal NIM.

- We will continue to leverage our strong capital, and invest, innovate, and grow.

- …and while growing, we continue to apply prudent risk management and build provisions.

- Thank to our solid risk approach, our stage 2+ 3 loans in total is limited to only 8.7% and both have strong coverages, actually at all time high.

- As for liquidity, we feel very comfortable on both TL and FC. Our low LDRs on both sides gives us a lot ammunition for growth, more than ever.



- Retail banking remains a strategic focus area for growth.

- I am happy to share we added a solid 1.3m net active customers year to date.

- This is on top of the net 2.3 million acquired last year, taking our active customer base to 12 million, up by 45% in the last 1.5 years.

- Looks like, we may have to revise up our additional 5m customer target by 2025, which we shared at the beginning of the year.

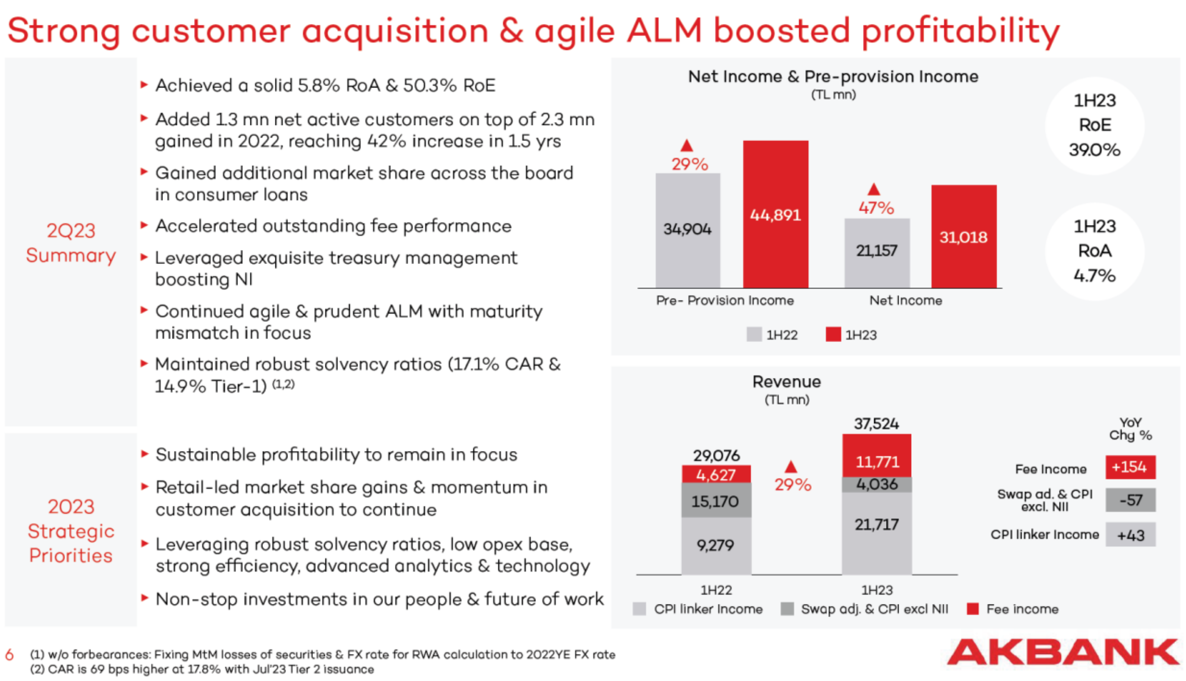
- This customer acquisition has resulted in record high market share gains across the board, in consumer loans, broad-based deposit base, and demand deposits.

- Over the last 1.5 years, while acquiring customers, we have also increased our cross-sell.

- All these achievements have shown itself in fee income evolution, which continued to enhance quarter on quarter.

- Resulting in our fee income market share among private banks to surge by 240bp just during the first 5 months of the year - the latest available BRSA monthly data.

- The importance of especially investing through cycles has been a key driver in this performance.



- **We ended the quarter with a record 20 billion, 3 hundred and 7 million net income, up an eye-catching 90% QoQ, resulting in solid 5.8% ROA and 50.3% ROE.**

- **This takes our first half net income to a robust 31 billion, up 47% yoy, with an ROA of 4.7% and ROE of 39%, which is well ahead of our full year guidance.**

- **Buffers remain for both ROA and ROE, as we used 40% for our CPI-linker valuation.**

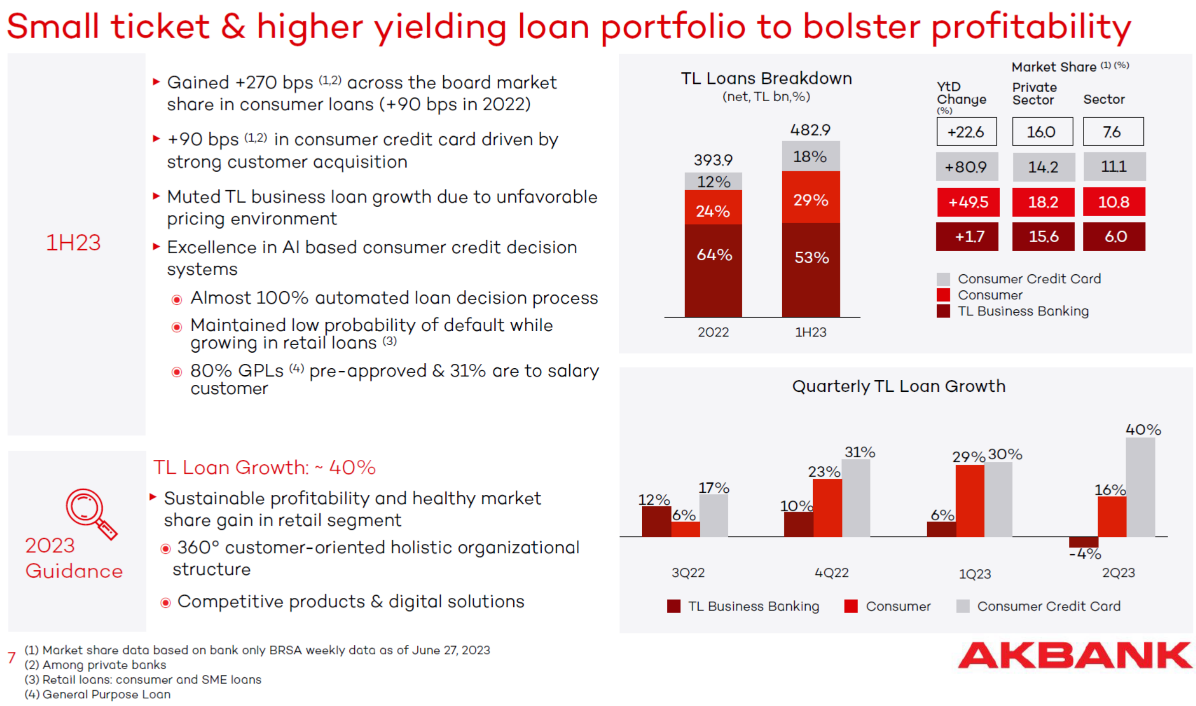
- **Our strong momentum in customer acquisition has enhanced our quarterly fee income, up 34% QoQ, supporting our core revenue generation.**

- **Another strong muscle of the bank has been our treasury management, which has always demonstrated capability in generating high returns…**

- **This quarter is no exception. With the agility in balance sheet management, timely hedges and strong customer related business, we leveraged our exquisite treasury management, further boosting our net income.**

- **Our customer-centric organization, sound balance sheet management and significant excess capital, put us in a position of strength.**

- **Moving onto the key drivers of our solid first half performance in more detail…**

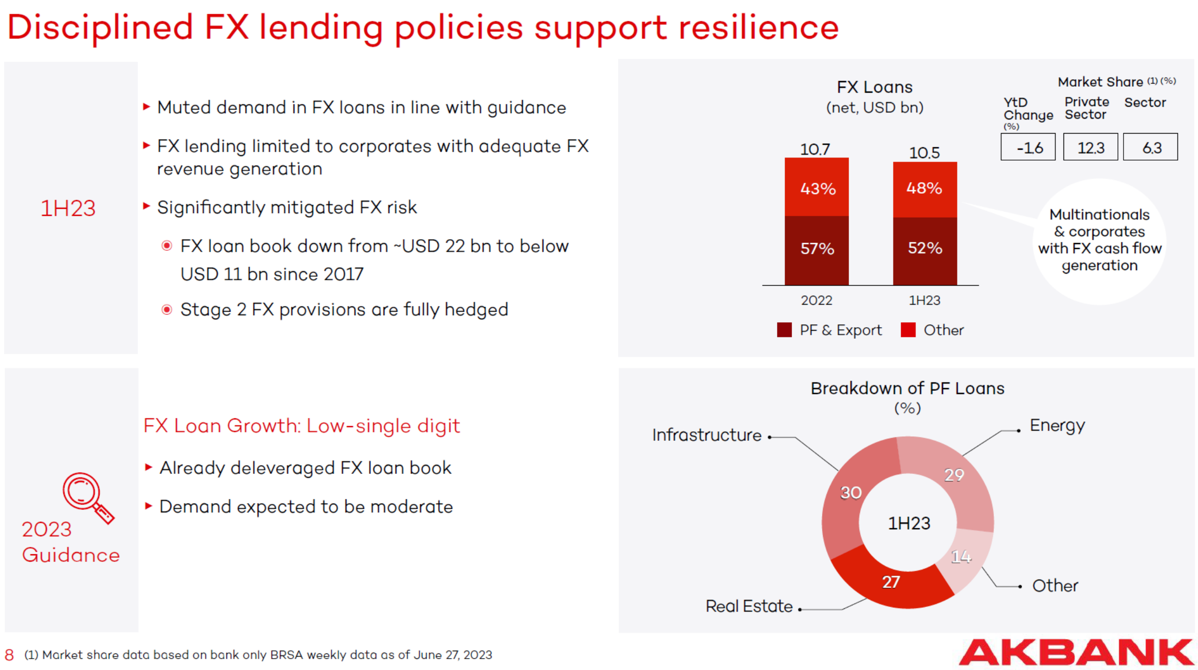


Our TL loans were up by 23% YTD, where our focus remained on maturity mismatch and lucrative small tickets.

- **Main contributor was consumer loans, up 50% ytd as the Bank's motivation in high yielding small tickets continues at full pace.**
- **This motivation has resulted in a record high & broad-base 270 bps market share gain among private banks in consumer loans.**
- **This is on top of 90 bps gained last year.**
- **We also gained eye-catching 90bps market share in consumer credit cards ytd driven by our strong customer acquisition.**
- **In business banking however, we temporarily refrained to grow, due to regulatory pricing caps. Latest normalization steps make us more comfortable to grow going forward. This is showing itself in latest market share gains.**

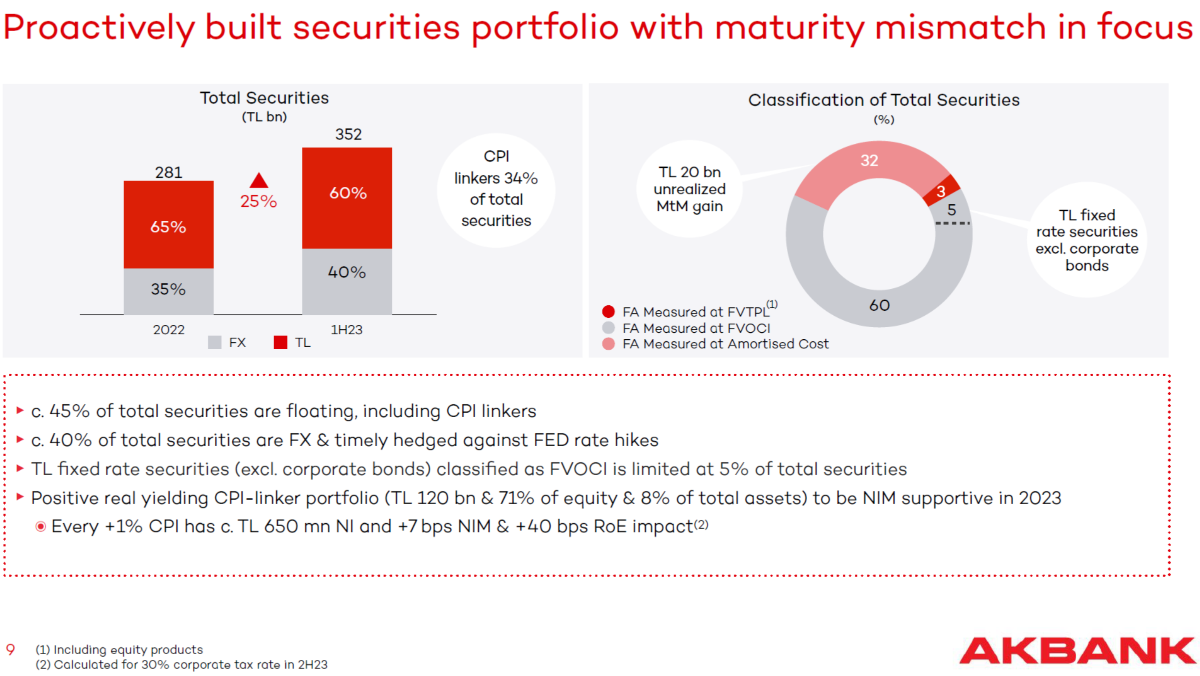
- **Thanks to our advanced analytics and excellence in AI based loan decision systems, the PDs of the retail loan portfolio remain at low levels, while growing…**

- **Our 360 degree customer oriented holistic organization structure as well as competitive products and advanced digital solutions will continue to be supportive factors for growth.**



- **On the FX loan side, demand remained muted in the first half of the year in line with our guidance.**

- **Our net FX loans were down by 1.6% to USD 10.5bn as of 2Q23.**



- **Moving onto the securities side.**

- **Interest rate risk management remains in focus for our securities positioning as well.**

- **Our total securities were up by 25% ytd mainly led by:**
    - **High yielding, TL corporate bond primary issuances, which amount to TL 21 bn and have an average maturity of less than 1 year.**

- **Almost half of our total securities portfolio consists of floating rates, which include CPI-linkers.**

- **As for TL securities alone, more than 70% is floating.**

- **TL fixed rate securities (excluding the corporates bonds) classified under fair value through other comprehensive income, or in other words available for sale, is limited to only 5% of total securities.**

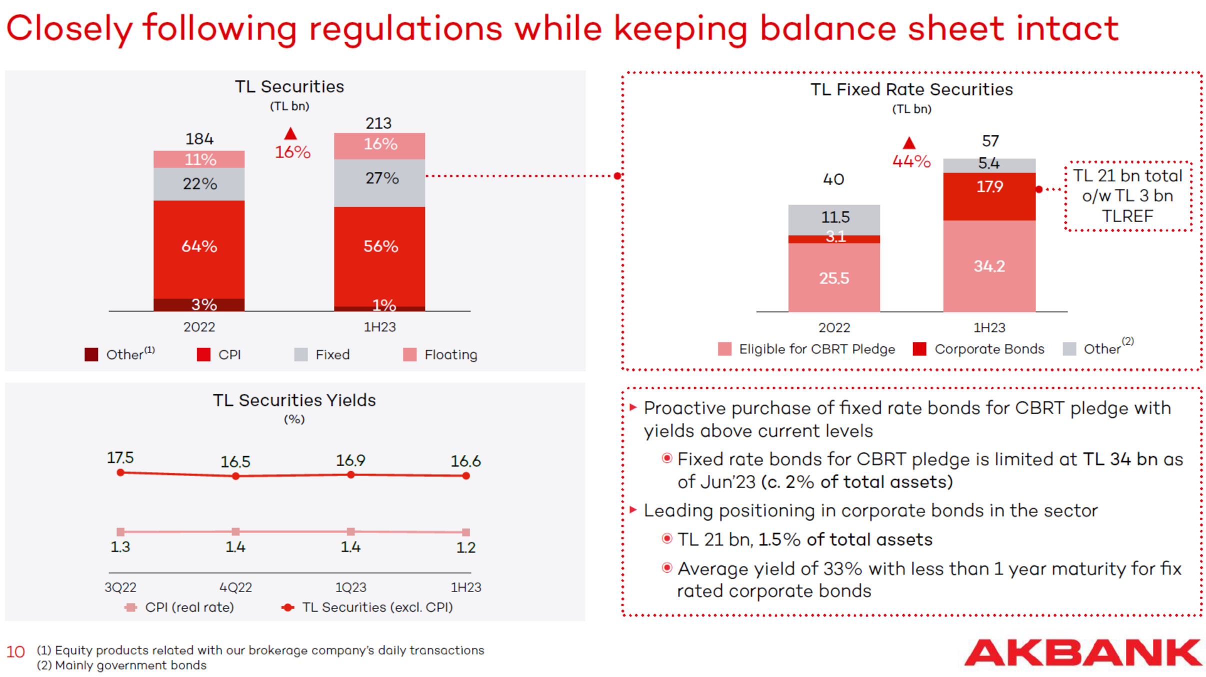
- **Also, our Treasury's proactive positioning in positive yielding CPI linkers is helping to mitigate the negative impact of inflation.**

- **Our CPI-linker portfolio now stands at TL 120bn, which equates 71% of our equity, or 8% of our total assets.**

- **As shared earlier, buffer remains with our 40% inflation valuation of CPI-linkers vs our Oct inflation expectation of over 50%.**

- **Every 1% CPI has TL 650m net income, 7 bps NIM and 40 bps ROE contribution on a full year basis.**

- **As shared in several occasions, our FC securities, which make up 40% of total, were timely hedged, mainly 2 years ago, against Fed rate hikes.**



- **Having met the 60% TL deposits in total as of February, we have been able to manage the regulatory fixed rate securities portfolio around only 2% of our total assets, which has been well below our peers.**

- **Similar to first quarter, we continued with high yielding, averaging 33%, corporate bonds at primary issuances and, moreover we granted mainly TLREF indexed loans with significant positive spreads.**

- **As a result, we maintain our leading position in the high yielding corporate bonds, which stand at TL 21bn, or around 1.5% of our total assets. This strategy mitigates some of the negative impact of the lower yielding regulatory fixed rate bonds.**

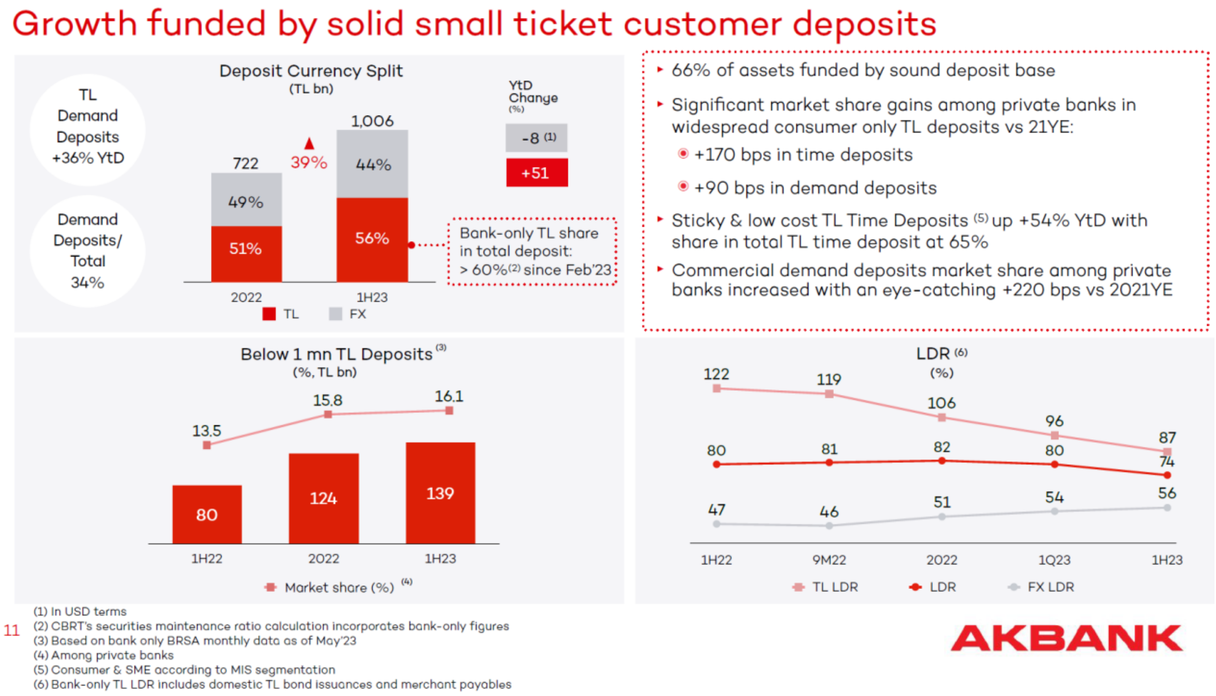
- **Also for optimization purposes, switch transactions have been executed by selling bonds with higher market prices to CBRT and replacing them with higher yielding securities mainly through Treasury auctions.**

- **As for the strong clean trading line, which boosted our bottom-line, many factors contributed. Namely:**
  - **broad-based customer business, through all channels, in both FX trading and rates, due to widening spreads,**

- proactive positioning of balance sheet hedges as well as
- the trading team's ability to leverage any arbitrage opportunities in the market.

- **As we have demonstrated in the past quarters, over and over again, we have confidence in delivering solid performance in the trading line going forward.**

- **And thanks to this strong muscle of the bank, we were able to mitigate the pressure on profitability due to regulatory limitations suppressing NIM.**



- **On the funding side, we maintain our focus on well-diversified and disciplined funding mix.**

- **Deposits continue to be our main source of funding with 66% share in total liabilities…**

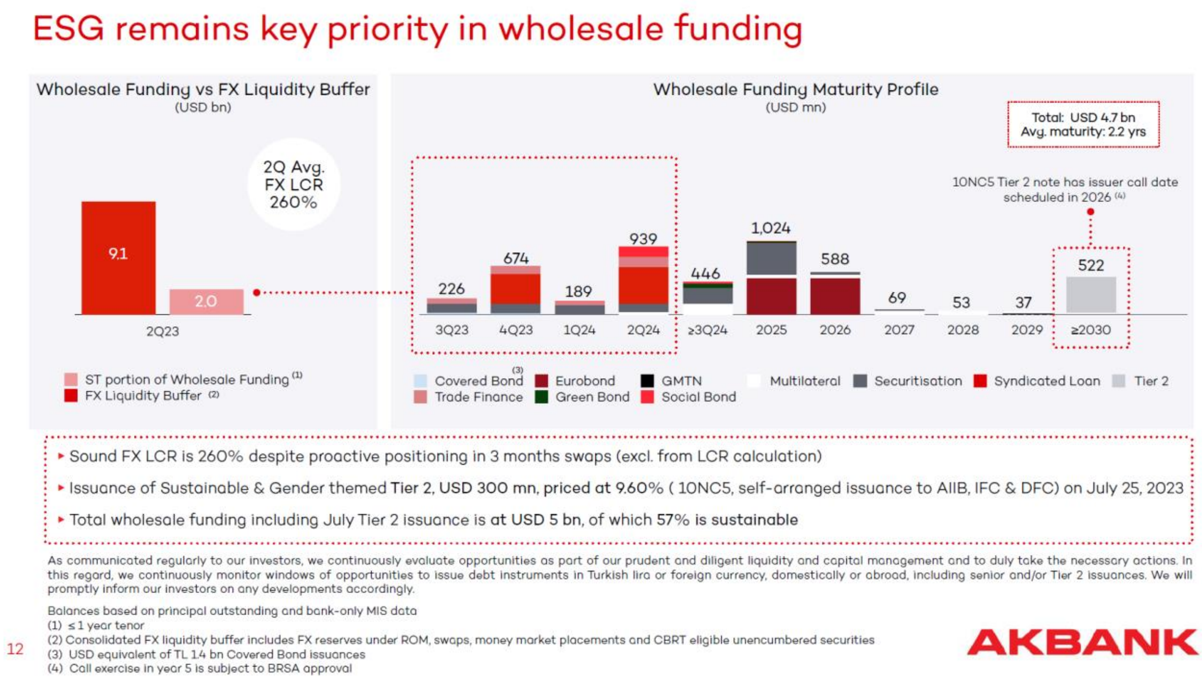
- **Our total TL deposits were up by a 39% ytd while our sticky low cost TL time deposits surged by 54% in the same period with share in TL time deposits standing at solid 65%.**

- **Our zero cost TL demand deposits were also up by an outstanding 36% ytd, respectively.**

- **Thanks to our sound customer franchise and our success in customer acquisition, our market share in widespread consumer only TL deposit among private banks has increased significantly over the last 1.5 years:**

    - **Especially worth to underline our 170 bps market share gain in TL time deposits, which supports our small ticket deposit base.**
    - **Our market share in demand deposits among private banks also increased by 90 bps**
    - **While our Commercial demand deposit market share increased by 220bps in the same period.**

- **On the regulatory side, as shared earlier, TL share in total deposits is above 60% since end of February.**



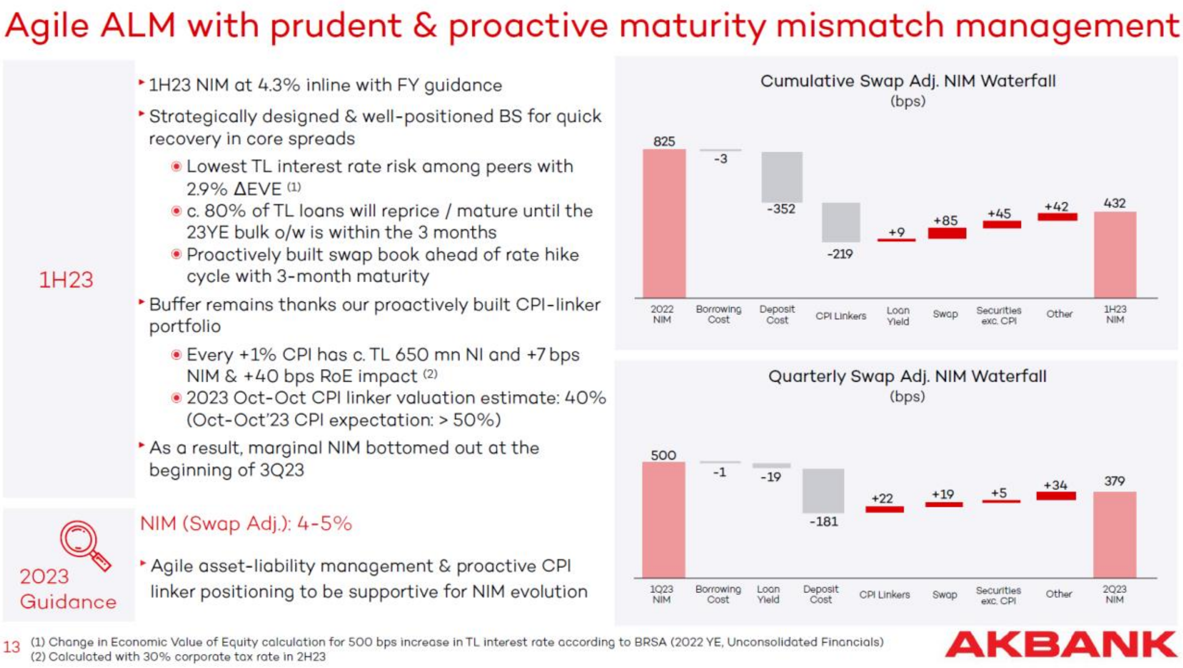
- **ESG remains as a key priority in wholesale funding, reaching 57% of the outstanding, including our recent tier 2 issuance.**

- **Our USD 500m social syndicated loan in April, which was a first in Turkey, will be used to support the trade finance transactions of our customers affected by the earthquake.**

- **Also, we just completed a USD 300m sustainable and gender tier-2 issuance this week.**

- **Thanks to the joint efforts of three IFIs based in different geographies from Asia to US, this marks the issuance of the first gender Tier-2 in the world and also supports our green SME and commercial clients through our sustainability strategy and recently enhanced Sustainable Finance Framework.**

- **Lastly, our FC LCR when adjusted for our strategic 3 month swap positions, which are not included in the calculation, would be above 400%, similar to first quarter.**



- **We ended first half of the year with 4.3% NIM, in line with our guidance shared at the beginning of the year.**

- **During the first half, regulations supporting liralisation strategy, have led for deposit costs to rise significantly in the sector, while most of lending yields have been capped.**

- **This resulted in notable decline on TL core spreads.**

- **Our management's focus remained on maintaining low maturity mismatch.**

- **Therefore, we proactively complied with the regulations in order to keep the regulatory fixed rate bond purchases at low levels.**

- **Our balance sheet is strategically designed for a quick recovery in core spreads.**

- **We have a sizeable TLRef indexed loan portfolio with high spreads, as well as overdraft loans, which has already started to reprice after CBRT's rate hikes.**

- **Thanks to this positioning, around 80% of our TL loans either reprice or mature until YE, bulk of which is within the next 3 months.**

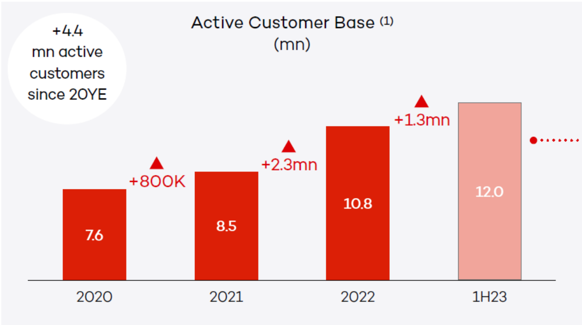
- **Also, our Treasury has timely locked in 3 month swaps ahead of the rate cycle, which will be supportive for NIM evolution.**

- **I can comfortably share that marginal NIM bottomed out in the beginning of third quarter.**

- **….and as I shared earlier buffer remains in our CPI-linker valuation given our 40% Oct-to-Oct CPI estimation vs our above 50% inflation expectation.**

- **Going forward thanks to agile ALM with prudent and proactive maturity mismatch management as well as our solid customer deposit franchise we remain confident in our full year NIM guidance.**

Accelerated momentum in customer acquisition & activation



Avg. monthly customer acquisition vs 2020
- New to bank: 4x
- Activation: 2x

- Strong momentum in digital customer acquisition via DoB (2)
  - 60% of new to bank customer acquisition (+20pp vs 2022)
  - ~2x monthly digital customer acquisition YoY
- Further penetrated in demand deposits and daily cash flow by almost doubling salary & pension customers last 1.5 year
- Active young customer base (18-26) reached 1.5x YoY

- Boosted customer acquisitions with innovative offerings
- Customer-based revenue generation solidified with active product portfolio(3) +32% YoY, reaching all time high thanks to
  - Accelerated customer activation / acquisition
  - Continued improvement in x-sell ratio

14 (1) Based on MIS data
(2) Digital Onboarding
(3) Active customer base (x) avg. cross sell per active customer based on MIS data

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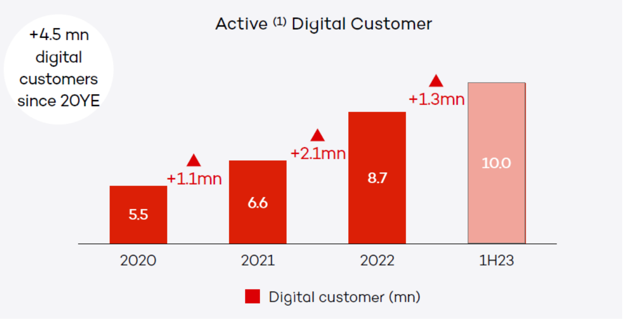
- **I mentioned earlier, our momentum in customer acquisition continues at full pace.**
- **Our active customer base reached 12 million, up 45% in 1.5 years.**
- **Similar to first quarter, 60% of our new to bank customers were acquired via digital onboarding, underlining the strength of our digital capabilities.**
- **We have to further penetrated into demand deposits and the daily cash flows of our customers by almost doubling salary & pension customers over the last 1.5 years.**
- **We continue to leverage digital on boarding and holistically revamping our value proposition for young customers.**
- **Our active product portfolio, a function of active customer base and average cross-sell per customer, has increased by 32% yoy, reaching all time high.**
- **This solidifies our customer-based revenue generation for the coming periods.**

Digitalization solidifies sustainable customer-based revenue growth



- Sustainable fee generation supported by
  - Digital customer base & average traffic per active customer, which are both at their highest levels
- Our active digital customers log into Akbank Mobile application more than once a day enabling x-sell opportunities

In 2Q23

31x Monthly avg mobile login frequency per customer

2x Digital customer x-sell compared to non-digital

71% Credit Cards sold through digital channels

79% Bancassurance Products sold through digital channels

90% GPLs sold through digital channels

95% Digital channel migration of transactions (2)

15 (1) Based on MIS data. Active: Login in last 3 months
(2) Including financial transactions such as money transfers, payments & investment, excl. viewing & cash transactions

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- **Our digital strategy, which is based on our customer's journey, continues to show in the numbers.**

- **We reached 10 million digital customers, up 51% over the last 1.5 years.**

- **A digital customer enters our mobile app 31 times a month, so more than once a day, supporting sustainable fee income.**

Extended across the board outstanding fee performance

1H23

Payment Systems (+99% YoY)
- Strong customer acquisition & new product innovations

Business Loans (+204% YoY)
- Increased volume and effective pricing in both cash & non-cash loans

Wealth Management (+159% YoY)
- Ak Asset Management #1 among peers with TAuM of TL 297 bn

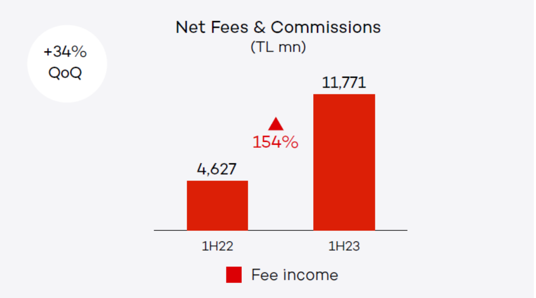
Money Transfers (+144% YoY)
- Increased volume and effective pricing

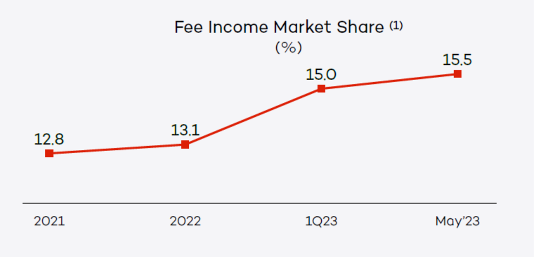
Bancassurance (+126% YoY)
- #1 among peers in total premiums as of 1Q23

Consumer Loans (+204% YoY)
- Solid customer acquisition & market share gains

2023 Guidance

Net Fees & Comm. growth: ~ 60%
- Across all business lines & customer acquisition driven
- Diversified product offerings & digital solutions supported by our sophisticated AI capabilities





16 (1) Based on bank only BRSA monthly data, among private banks

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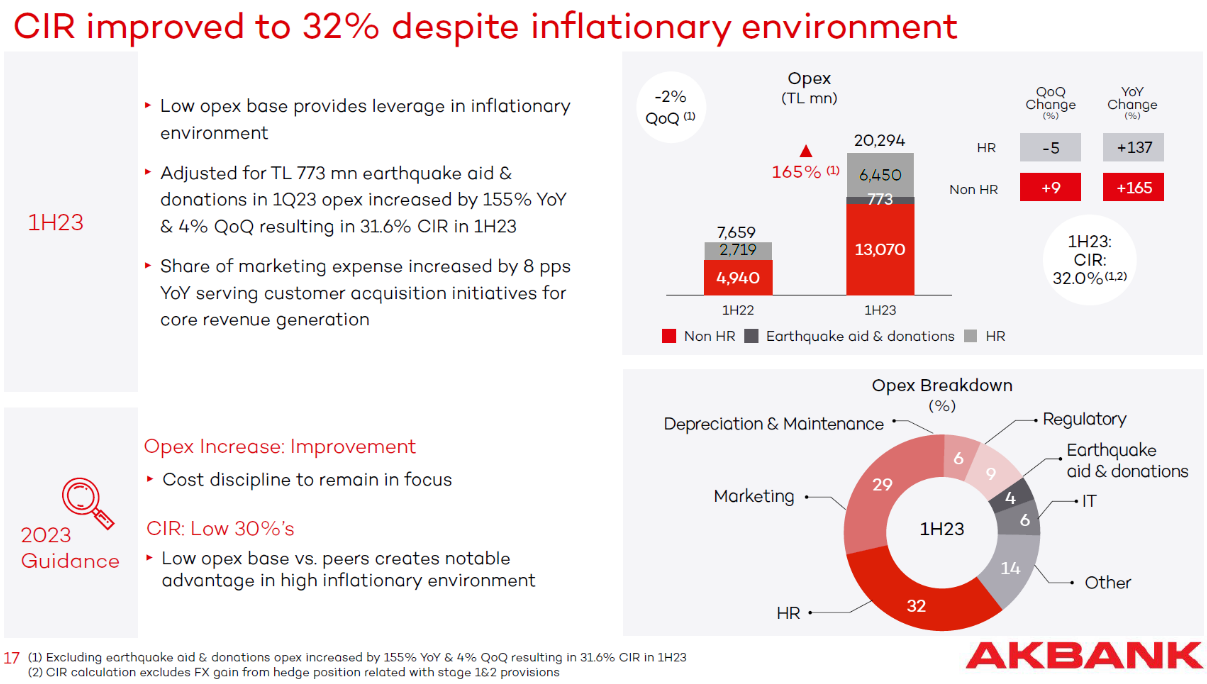
- **On the commission revenue side, we further extended our outstanding performance across the board.**

- **Our net fees & commission income was up by an eye-catching 154% yoy and 34% qoq.**

- **This is well ahead of our full year guidance of around 60%, indicating a significant upside for the year.**

- **All business lines continue to contribute positively, underlining the sustainability of our fee income generation going forward.**

- **More importantly, it is worth to underline that we have gained 240bps market share among private banks, according to latest BRSA monthly data as of May.**



- **Challenges remain on the opex side.**

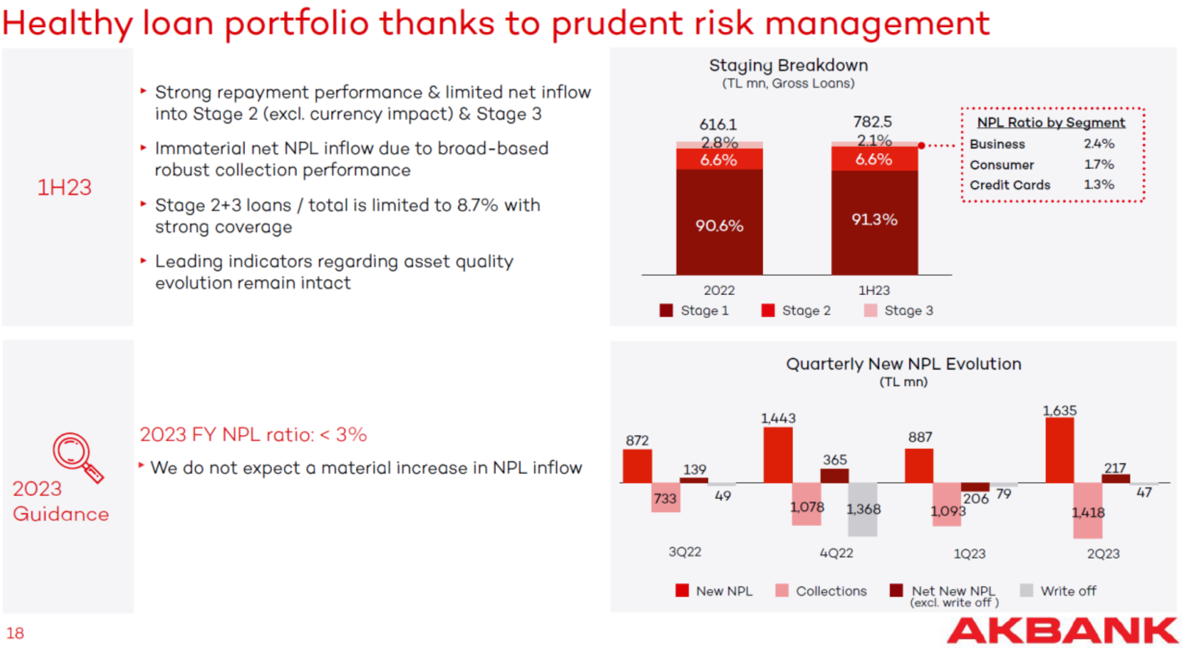
- **Our opex was down by 2% QoQ.**

- **On yoy basis, when when adjusted for one-off earthquake aid & donations our opex was up 155% yoy.**

- **However, our low opex base provides leverage and gives us significant competitive advantage, and a lot more flexibility during inflationary environment.**

- **Meanwhile cost discipline remains in focus.**

- **As a proof, our CIR improved to 32% despite the inflationary environment.**



- **Moving onto asset quality, our loan portfolio continues to perform well with continuation of strong repayment performance and almost no net inflow into stage 2, when excluded for currency impact, provisions o/w are fully hedged.**

- **As for stage 3, collection performance remained robust and broad-based, almost surpassing new NPL inflows, resulting in immaterial net new NPL evolution in the second quarter of the year.**

- **Hence, we completed the quarter with a further 70 bps improvement in NPL ratio to 2.1% - which is in line with our FY guidance of below 3%.**

- **Share of stage 2 + 3 in our gross loans – which would be deemed potentially problematic, continued to be limited at 8.7%, with strong coverage.**

- **Meanwhile, all leading indicators regarding asset quality evolution remain intact thanks to our prudent risk management and healthy loan portfolio composition.**

Further provision build with all-time high coverages in all stages

1H23

- Increased coverage across all stages reaching total provisions of TL 28.7 bn including free provisions
- CoC performance underlines proactive provisioning & healthy loan composition
- Net total CoC (excl. ccy impact) at 114 bps
  - 20 bps including proactive earthquake related provisioning
- FX provisions are hedged

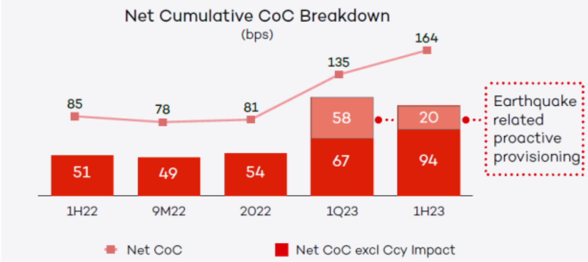
Provision Build & Coverages

(%)	2022	1H23
Stage 1 Coverage	0.7	0.8
Stage 2 Coverage	16.4	18.5
Stage 3 Coverage	67.6	70.1
Stage 2+3 Coverage	31.6	31.2
Total Provision Build [1] (TL bn)	21.9	27.3
Free Provisions (TL mn)	1,400	1,400

2023 Guidance

2023 CoC (excl. currency): ~ 100 bps

- Significant provision build & solid collateral values to limit additional provision need
- Already strong coverages



19 (1) Excluding free provisions

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

- **We ended the first half of the year at 114 bps net COC excluding currency impact, including 20 bps of proactive earthquake related provisioning**

- **Excluding our cautious provisioning for the earthquake, our net COC (excl. currency) would be 94 bps – just in line with our FY guidance of around 100 bps.**

- **Despite our solid loan growth, our coverage ratios have further increased significantly YTD with an additional loan loss provision build of TL 5.4 bn.**

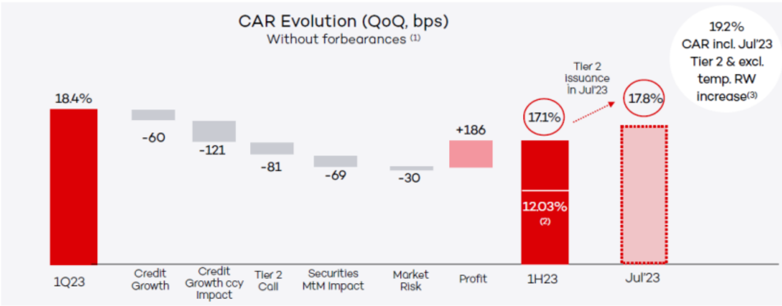
- **For stage 1, our coverage ratio is at 0.8% up from 0.7%.**

- **For stage 2 and stage 3 loans, our coverage ratios increased by more than 200 bps YTD to 18.5% and 70.1%, respectively.**

- **As for stage 2 + 3 coverage there is a slight ytd decrease given the increased level of stage 2 loans mostly related to currency increase.**

- **We believe our robust provision build and solid collateral values will limit the need for unforeseen additional provisions.**

Superior capital buffers remain as significant competitive advantage



Sensitivity of Solvency Ratios (not linear) (4)
- 10% TL depreciation: c. 45 bps
- 100 bps TL interest rate increase: 7 bps (5)
- 1% NPL increase: c. 20 bps

(%, TL bn)	CAR	Excess Capital (6)	Tier 1	Excess Tier 1 (6)	CET-1	Excess CET-1(6)
Without forbearances	17.1%	55.7	14.9%	52.9	14.9%	69.3
With forbearances (1)	19.3%	71.3	17.0%	67.6	17.0%	82.3

(1) Fixing MtM losses of securities & FX rate for RWA calculation to 2022YE FX rate
(2) Min Basel III required: Including buffers (Capital Conservation Buffer: 2.50%, D-SIB Buffer: 1.50% Countercyclical Capital Buffer: 0.04%)
(3) BRSA implemented higher RW for newly generated consumer CCs, GPLs (from 75% to 150%) & comm. loans excl. SME, export, investment (from 100% to 200%)
(4) Currency sensitivity includes Jul'23 Tier 2 issuance, diminishing sensitivity for higher amount of changes
(5) Sensitivity calculation includes 20 bps real rate change for CPI-linkers (FVOCI)
(6) Basel III min. requirements: CAR: 12.03%, Tier-1: 10.03%, CET-1 8.53%

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- **Our total capital, Tier 1 and CET 1 ratios w/out forbearances remain robust at 17.1% and 14.9%, respectively, despite negative impacts deriving from:**
  - **Credit Growth: 181 bps, 121 bps of which is currency related and**
  - **Tier 2 call: 81 bps**

- **While our sound profitability also reflected onto our capital position as our internal capital generation added a solid 186 bps to our total capital QoQ, reaching almost 300bps ytd.** *(284bps)*

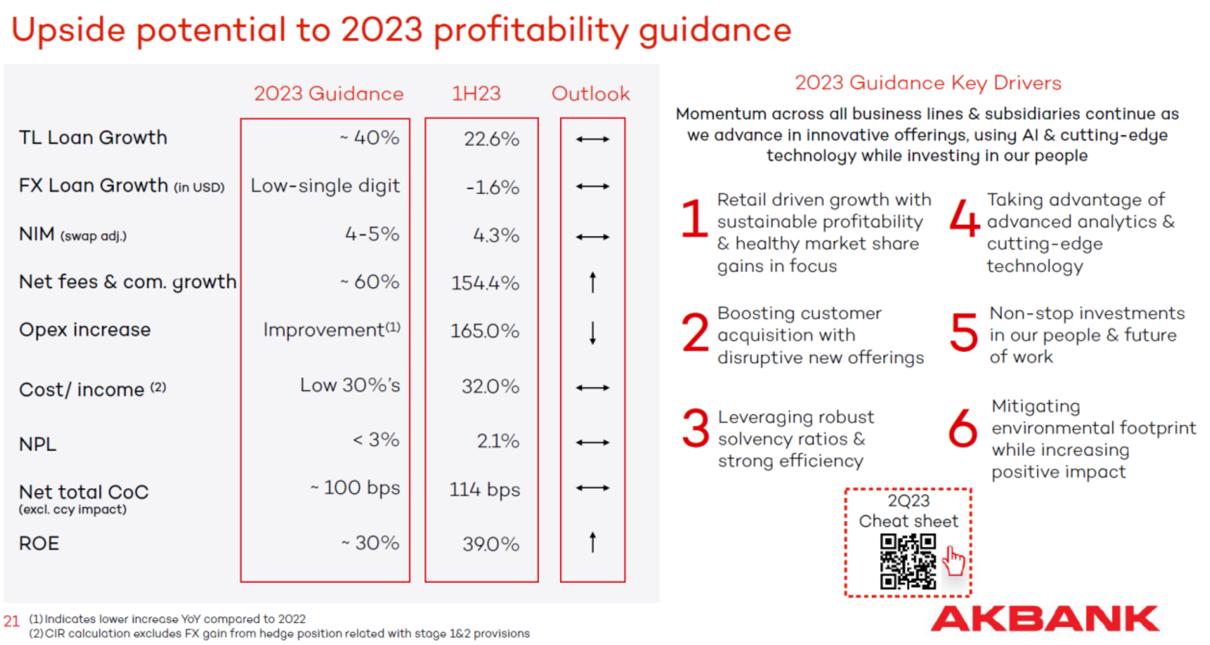
- **Worth to note that, adjusted for our USD 300 mn Tier 2 issuance completed yesterday, our CAR would be 17.8%.**

- **Also, please note that, adjusted for the temporary Risk Weight increases applied by BRSA, our Capital would be further 140 bps higher at an outstanding 19.2%.**

- **To give some sensitivity, 10% depreciation in TL results in around 45 bps decrease in our capital ratios while the impact diminishes for higher amount of changes.**

- **And, 100 bps increase in TL interest rate results in a 7 bps decline in our solvency ratios, again with diminishing impact.**

- **Sound capital buffers continue to serve as shield against unprecedented challenges and volatility, and create significant ammunition for sustainable profitable growth.**



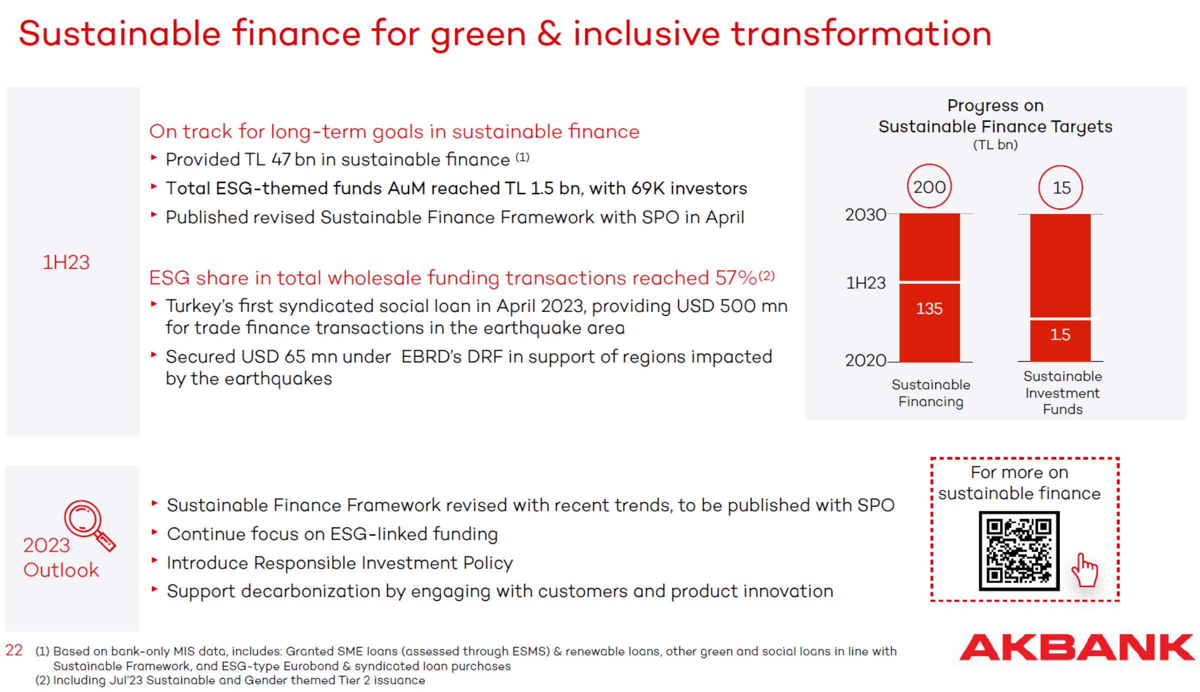
Upside potential to 2023 profitability guidance

	2023 Guidance	1H23	Outlook
TL Loan Growth	~ 40%	22.6%	⟷
FX Loan Growth (in USD)	Low-single digit	-1.6%	⟷
NIM (swap adj.)	4-5%	4.3%	⟷
Net fees & com. growth	~ 60%	154.4%	↑
Opex increase	Improvement(1)	165.0%	↓
Cost/ income (2)	Low 30%'s	32.0%	⟷
NPL	< 3%	2.1%	⟷
Net total CoC (excl. ccy impact)	~ 100 bps	114 bps	⟷
ROE	~ 30%	39.0%	↑

- **On this slide, you may find the summary of our solid first half performance.**

- **Though there are challenges on the opex side, the revenue generation capabilities of the bank, including the significant upside potential in fees, creates upside potential to our FY ROE guidance.**

Moving onto a few highlights regarding our ESG performance



- **In 2Q23, we remained committed to our long-term ambition to support the sustainable transformation of our economy.**

- **We have provided TL 47 bn sustainable finance ytd, totalling our support to TL 135 bn since beginning of 2021, almost 70% of our 2030 target shared back then.**

Innovative products & services to enhance businesses and financial health

2Q23

Introduced Entrepreneurship Banking Solutions
- Dedicated team in SME banking division
- End-to-end solution design to meet all needs of entrepreneurs
- Partnerships with Kolektif House, Usemagnetiq, Paraşüt, Mükellef and Aköde

Fostered sustainable entrepreneurship ecosystem
- Boost the Future, a startup program supporting entrepreneurs started in partnership with Endeavor Turkey (5th year)

2023 Outlook

- Continue to support green transformation journey of SMEs and women-owned SMEs
- Offer tailor-made programs to customers to enhance digital & financial literacy
- Further strengthen accessible banking through innovation

For more on how we empower SMEs

23

AKBANK

- **We also continued to contribute to our ecosystem for a more inclusive, innovative economy.**
- **We are proud to have introduced our entrepreneurship banking solutions, with a dedicated team in our SME banking division.**
- **We have designed solutions that meet both the financial and non-financial needs of entrepreneurs, with various partnerships.**

For more details, please check the annex of this presentation as well as our ESG presentation on our website.

This concludes our presentation.

Please feel free to reach out to Investor Relations for any follow-ups you may have.