
AKBANK
4Q21 Earnings & 2022 Outlook Call
Management Discussion
01 February 2022
Participants:
Hakan Binbaşgil, CEO
Türker Tunalı, CFO
Ebru Güvenir, SVP, IR & Sustainability
İlknur Kocaer, VP, IR

Ebru Güvenir:

Dear friends,

Thank you all for joining us…I hope you and your loved ones are well…and wish you all a healthy, prosperous & happy new year…

…we are very excited to be hosting our 2021FY earnings along with our 2022 guidance where our CEO Hakan Binbaşgil and CFO Türker Tunalı will be sharing the strategy behind the numbers…after which we will be more than happy to answer your questions….

Before moving onto the Bank's solid performance… Hakan Bey, would you like to share a few thoughts?

Hakan Binbaşgil:

Thank you Ebru

Hi everybody, I am very happy to be with you again today. I hope that you; your families, colleagues, and loved ones are all doing well. We are going through challenging times, both globally and locally. But despite all these challenges, we have very good news from Akbank:

First; we ended the year on a very strong note.

Our robust performance was driven by:

- very strong organic growth, where every business contributed significantly,
- outstanding balance sheet management and
- state of the art infrastructure.

Secondly, we excellently positioned the Bank for strong financial results in the coming years.

Third, but not the least, we also did not forget to invest in our future:

I am proud to say that, today Akbank, with its:

- infrastructure,
- digital and analytical capabilities,
- people, culture, mind-set, and
- 'customer focused' organization,

is the most ready bank to smoothly wave through the challenges of the new era.

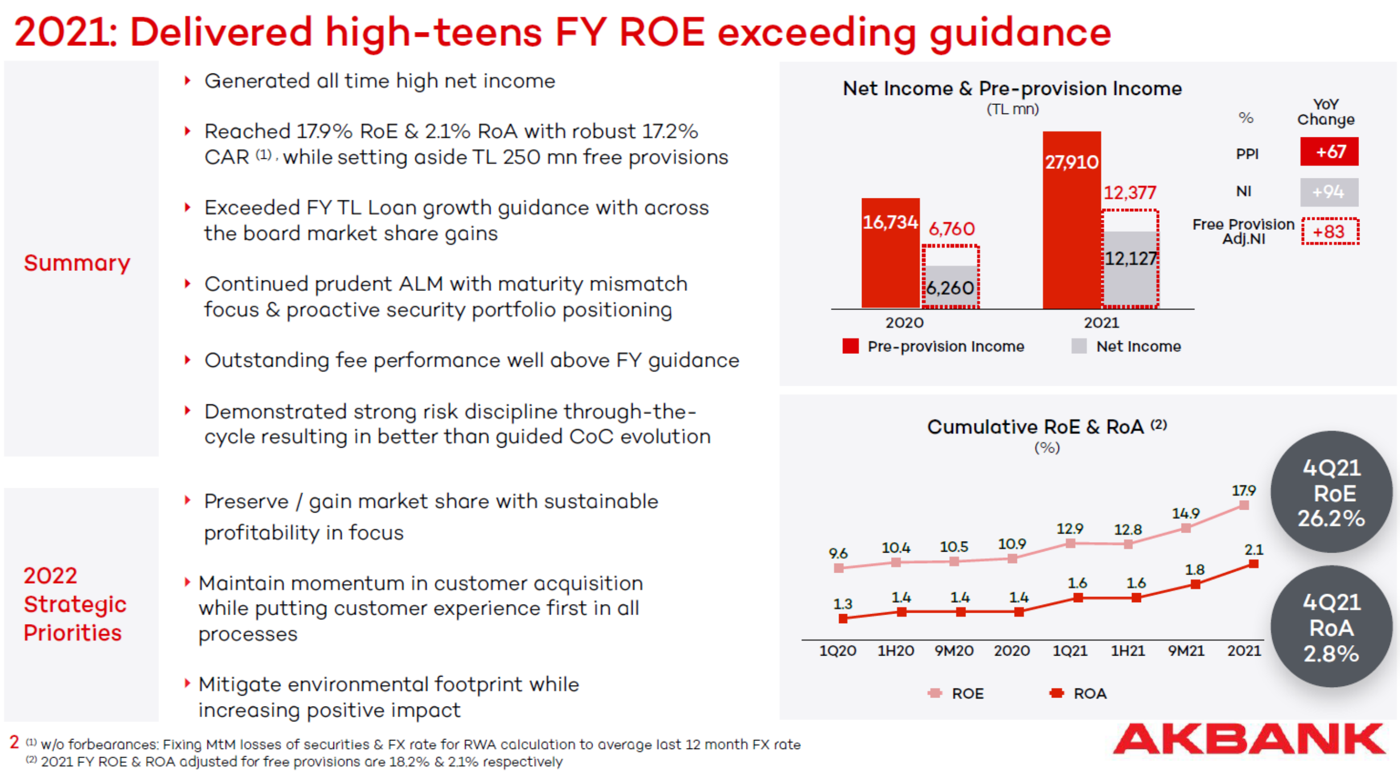
Before leaving the floor to Ebru:

I'd like to express my sincere gratitude to all our people for rising to challenges, and being a source of strength. I would also like to thank all our stakeholders for their consistent trust and confidence in us. After the presention, I'd be more than happy to answer your questions.

Ebru Güvenir:

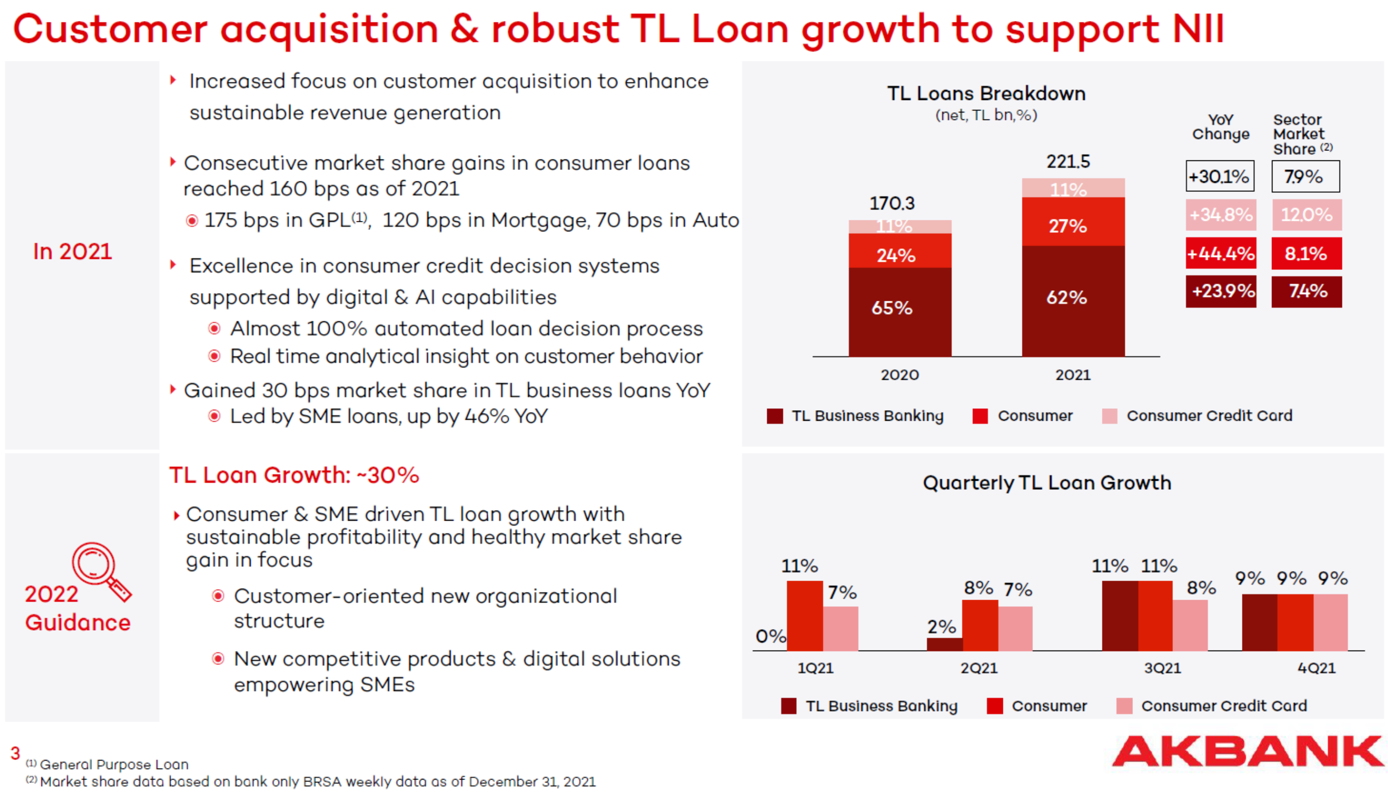
Thank you very much Hakan Bey…

Before diving deep, let's start off with a summary of the performance.



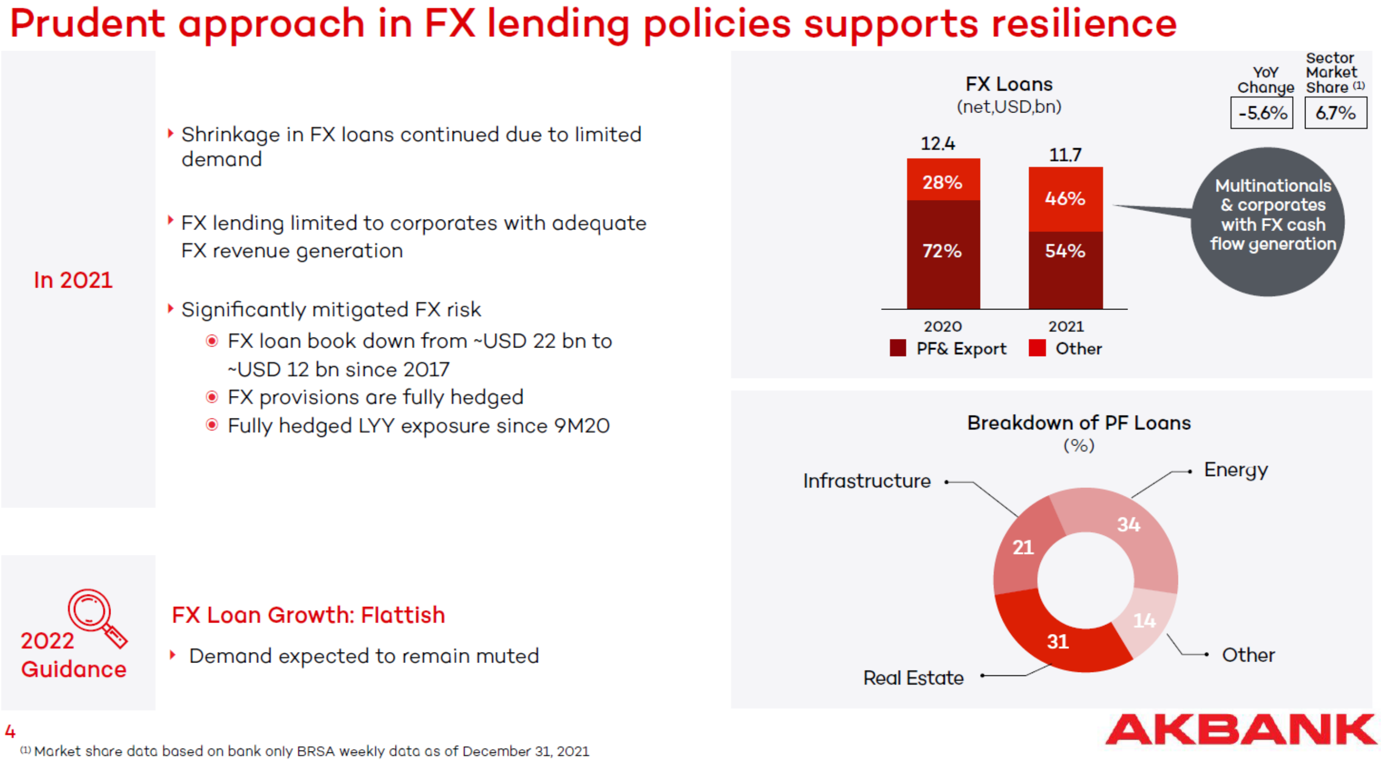
We achieved all time high net income of TL 12,127mn for the full year, delivering almost 100% yoy growth. We set aside additional TL 250mn free provisions in the last quarter. Our last year's ROE came in at 17.9%, while 4Q alone was very robust at 26.2%. Adjusted for free provisions our ROE has reached 18.2% for the year, which is well ahead of our guidance. For this year, our focus will continue to remain on healthy, profitable growth and customer acquisition. While sustainability remains at the heart of our strategy, as we aim to mitigate environmental footprint and increase positive impact.

So let's now dive deeper into main contributors of our 4th quarter's stellar performance…

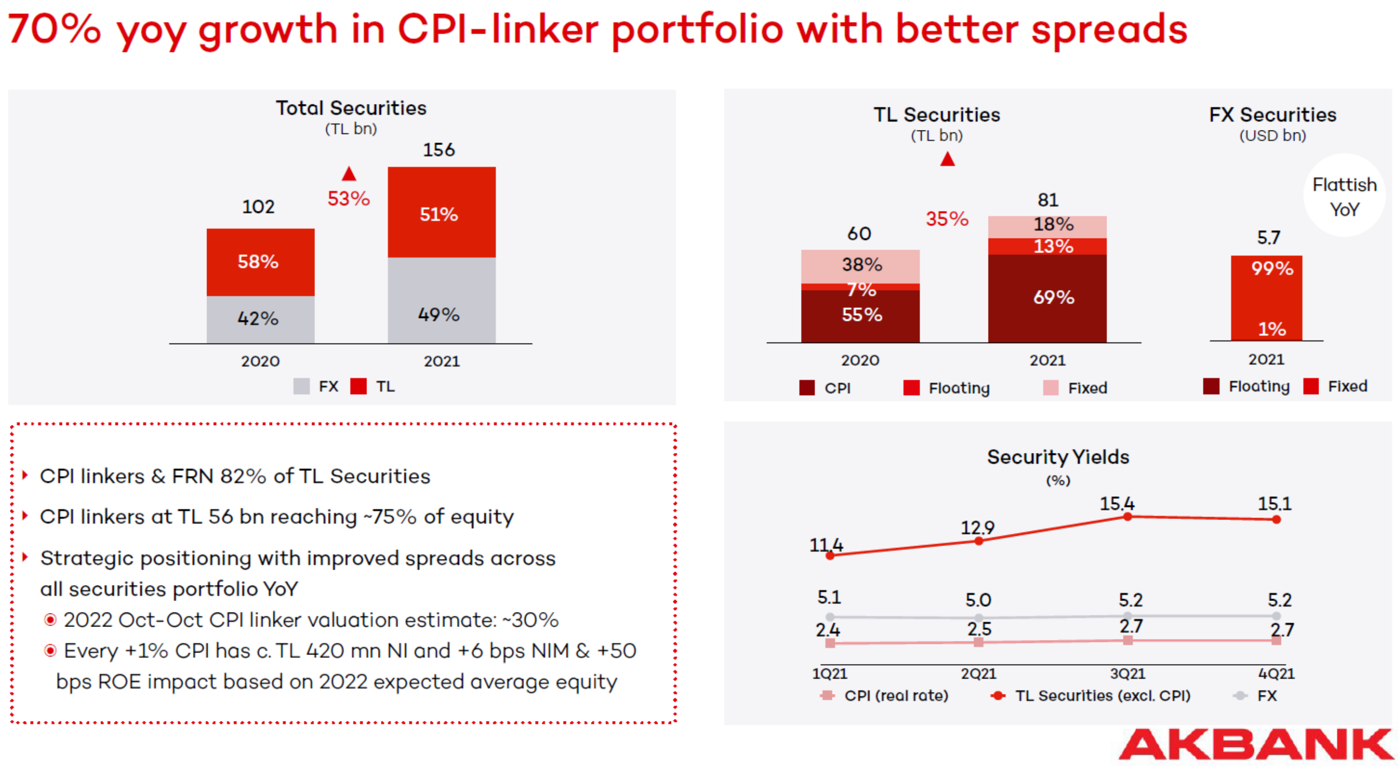


Our TL loan growth has been strong with 30% yoy growth, exceeding our FY guidance. Consecutive market share gains in consumer loans reached 160 bps thanks to our strong momentum in customer acquisition. Market share gains in the consumer segment were across the board: 175 bps in GPLs, 120 bps in mortgages and 70bps in autos. The market share gains in these segments were totally in line with our ambition. TL business loans also gained pace in the second half of the year following heavy redemptions of 1H, up 24% yoy with 30bps market share gain. In business banking significant contribution in growth came from SME banking. As a result we are very happy to have delivered on our strategy of consumer & SME driven TL loan growth, which was shared at the beginning of last year.

For this year we expect to grow a further 30% in TL loans, which will once again be driven by consumer & SME. Our new organization structure as well as recently launched comprehensive SME movement package, designed to empower SME's, will be a supportive factors in this growth.



Our net FX loans contracted by 5.6% yoy vs end of last year. We still observe muted demand for investment loans, also given volatile currency environment. We do not expect imminent change to this trend, which is inline with our flattish FC loan growth guidance of this year. We feel comfortable with our delevered FC book as we have taken several actions to mitigate the FX risk.

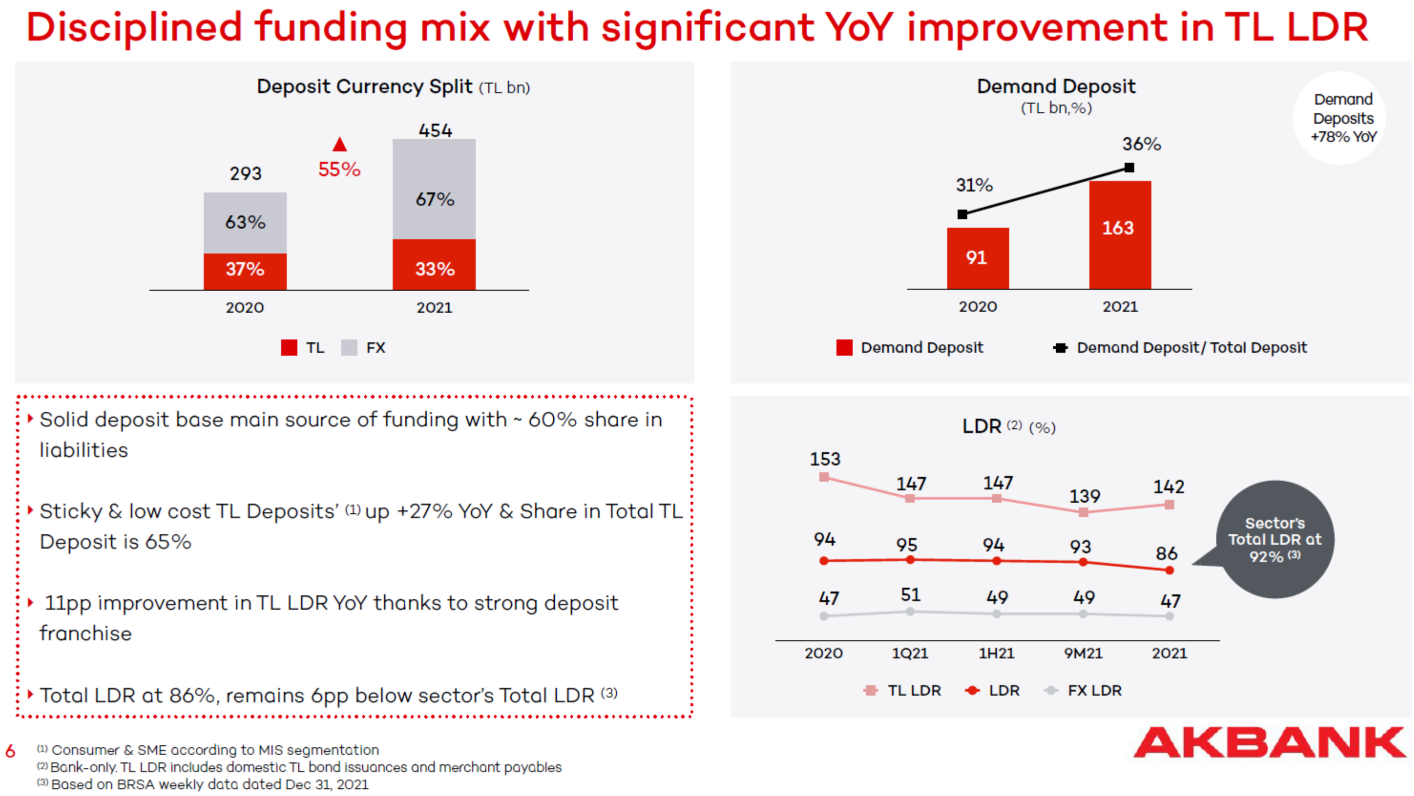


On this slide you may find the details to our strategic positioning in the CPI-linker portfolio. This positioning works as hedge in the higher than expected inflation backdrop. As you can see, Ytd increase in TL securities mostly took place in CPI linkers, which are now 69% of the total, while linker plus floating equate to 82% of our TL securities book.

We increased the CPI portfolio in a very timely manner with real yields around 3%. This portfolio now equates to TL 56bn, which is almost 75% of the total equity.

In 4Q21, we updated our CPI valuation with the actual October CPI of 19.9% vs 17% of nine months. This adjustment elevated our CPI linker income during the Q. At the beginning of this year, we further increased our CPI linker portfolio.

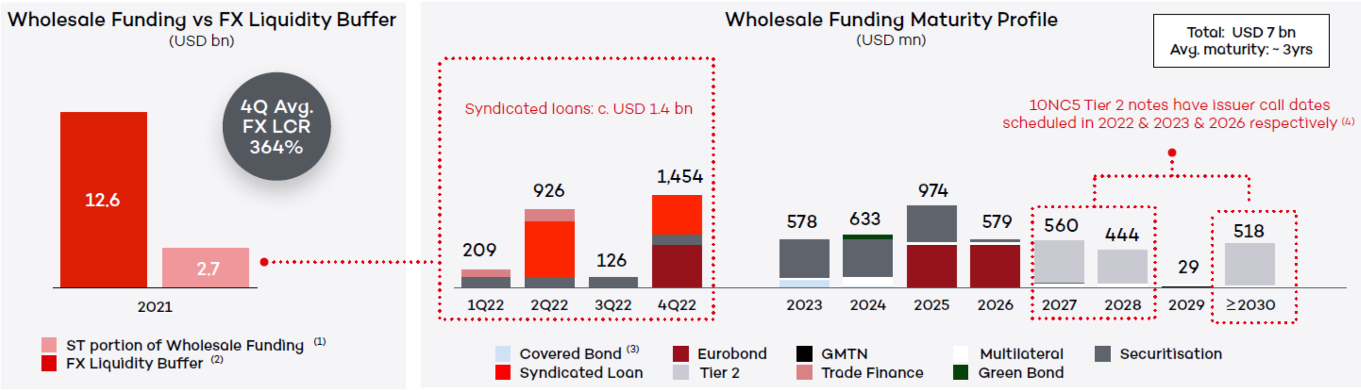
Our 2022 guidance for Oct-Oct CPI linker valuation estimate is at 30%. Every additional 1% CPI will have around TL 420mn NI, 6 bps NIM and 50 bps ROE impact, based on 2022 expected average equity.



In a very volatile year, we maintained our focus on well-diversified and disciplined funding mix. Deposits continue to be our main source of funding as they were up by 55% yoy to TL 454bn, equating to 60% of total liabilities. Our TL deposits were up strongly by 40%. Demand deposits were also up by a stellar 78% yoy, increasing its share in total by 5 ppts to 36%.

Our TL LDR stood at 142%, with a significant 11 pps improvement vs end of 2020, despite dollarization reaching all time high level during the year. This underlines our strong customer franchise. Our FC deposits, on the other hand, were down by 9% in USD terms. However, our sound FX liquidity with an FX LDR of 47% remains as one of our strong muscles. As a result, our total LDR ended the year at low level of 86%, once again significantly below the sector's.

ESG-linked funding remains key priority



- Total sustainable funding share in wholesale transactions are over 40%
- Pre-funded USD 500 mn 10NC5 Tier 2 notes in Jun'21 via Sustainable Tier 2 issuance

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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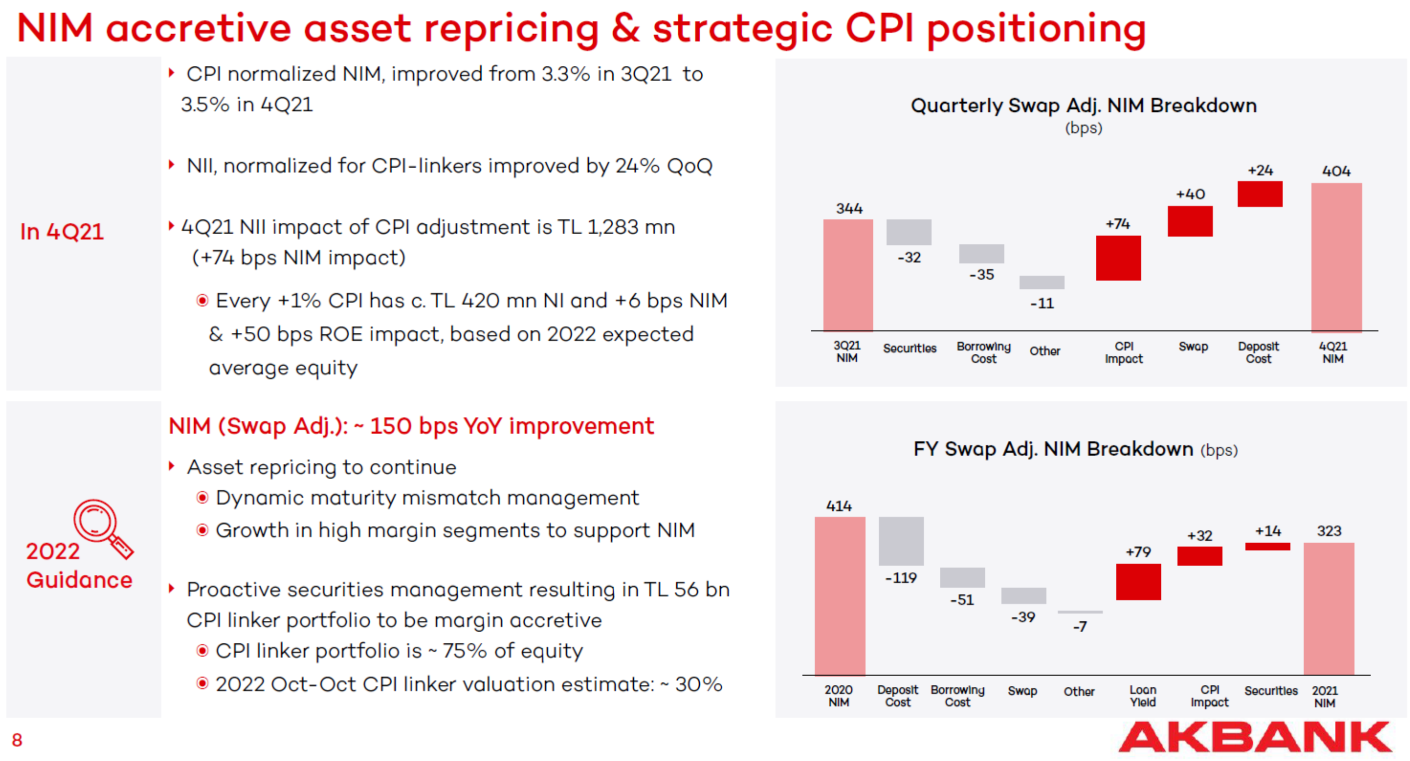
On the wholesale funding side of the story, we kept our balanced funding profile along with robust FC liquidity.

Our 4Q average FC LCR was solid at 364%. And our FC liquidity buffer was noteworthy at USD 12.6bn, versus our next 12 months rollovers at USD 2.7bn, of which USD 1.4bn are syndicated loans.

Due to our ample FX liquidity and low FX loan demand, we will continue to be opportunistic in our borrowing strategies, prioritizing sustainable funding while extending overall maturity.



When we look at our NIM performance, the Bank was challenged by the elevated funding costs during the majority of the year while some of the impact was compensated by the successful positioning in CPI linkers and dynamic asset and liability management.

The performance improved in the second half, also evident in 4Q with a strong support from CPI linkers as well as core spreads. In the 4th quarter NII impact of CPI-adjustment was TL 1.3bn with 74bps NIM impact. So definitely the strategic position of our CPI-linkers has paid-off.

However, also worth to note that, our CPI-normalised quarterly NII growth was still stellar at 24%.

Going forward, we expect around 150bps improvement in swap adjusted NIM, supported by asset repricing, our significant margin accretive TL 56bn CPI-linker portfolio as well as our solid customer deposit franchise

Across the board outstanding fee performance well above FY guidance

In 2021

Payment Systems (+64% YoY)
- Supported by both acquiring & issuing volume and customer acquisition

Bancassurance (+62% YoY)
- New product launch
- Digital Bancassurance sales +105% YoY
- Digital premiums/Total +45 pp YoY (1)

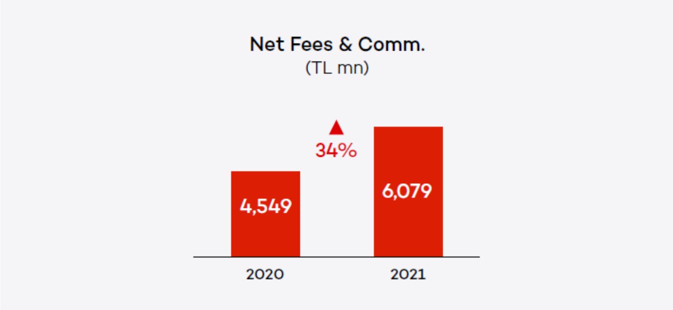
Money Transfers (+61% YoY)
- Supported by strong volume & effective pricing

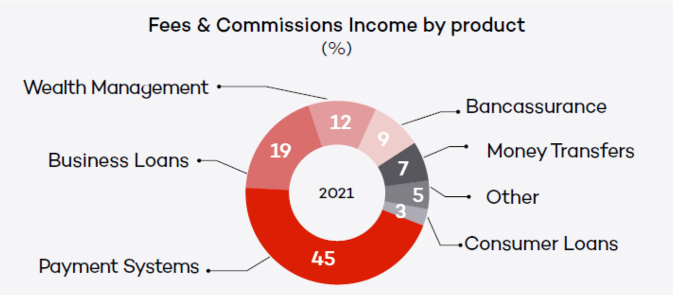
Consumer Loans (+26% YoY)
- Across the board market share gains

Wealth Management (+15% YoY)
- Ak Asset Management #1 privately owned company with over TL 100 bn TAuM
- Increased customer acquisition & market share with new digital services & multichannel marketing

2022 Guidance

Net Fees & Comm. growth: > 35%
- Across the board & growth driven
- New SME initiative with new products & digital solutions
- Strong positioning in wealth management & continued product innovation





9 (1) Based on MIS data

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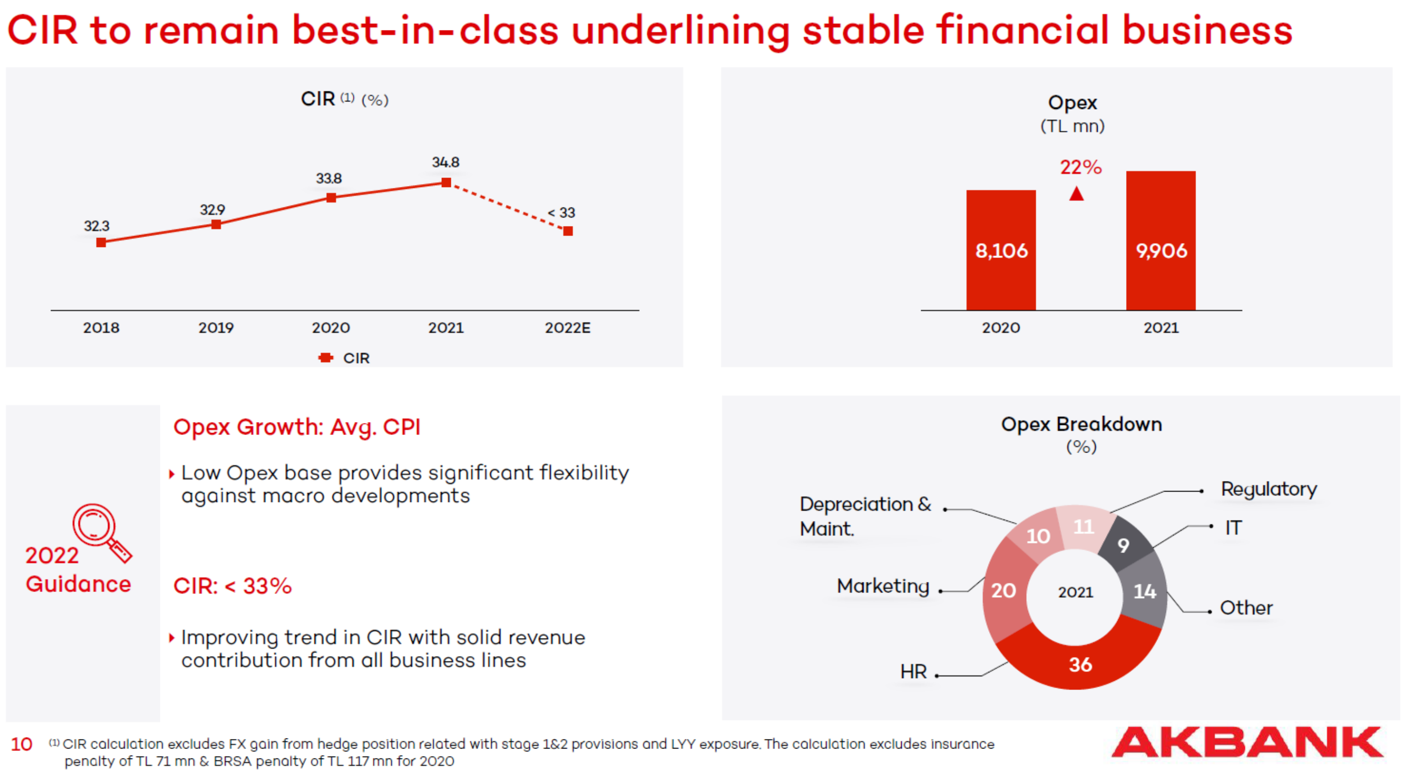
On the commission revenue side, we had an outstanding performance across the board, ending the year much better than guided with a solid 34% yoy growth. As you can see on this slide, all businesses have positively contributed to the revenue base, indicating the sustainability of our fee generation.

I'd like to especially mention, Ak Portfoy, our asset management company, which once again did a fantastic job and became #1 in AUM last year, with product innovation, supported by digital capabilities, and customer oriented solutions, providing our customers wide range of investment products…

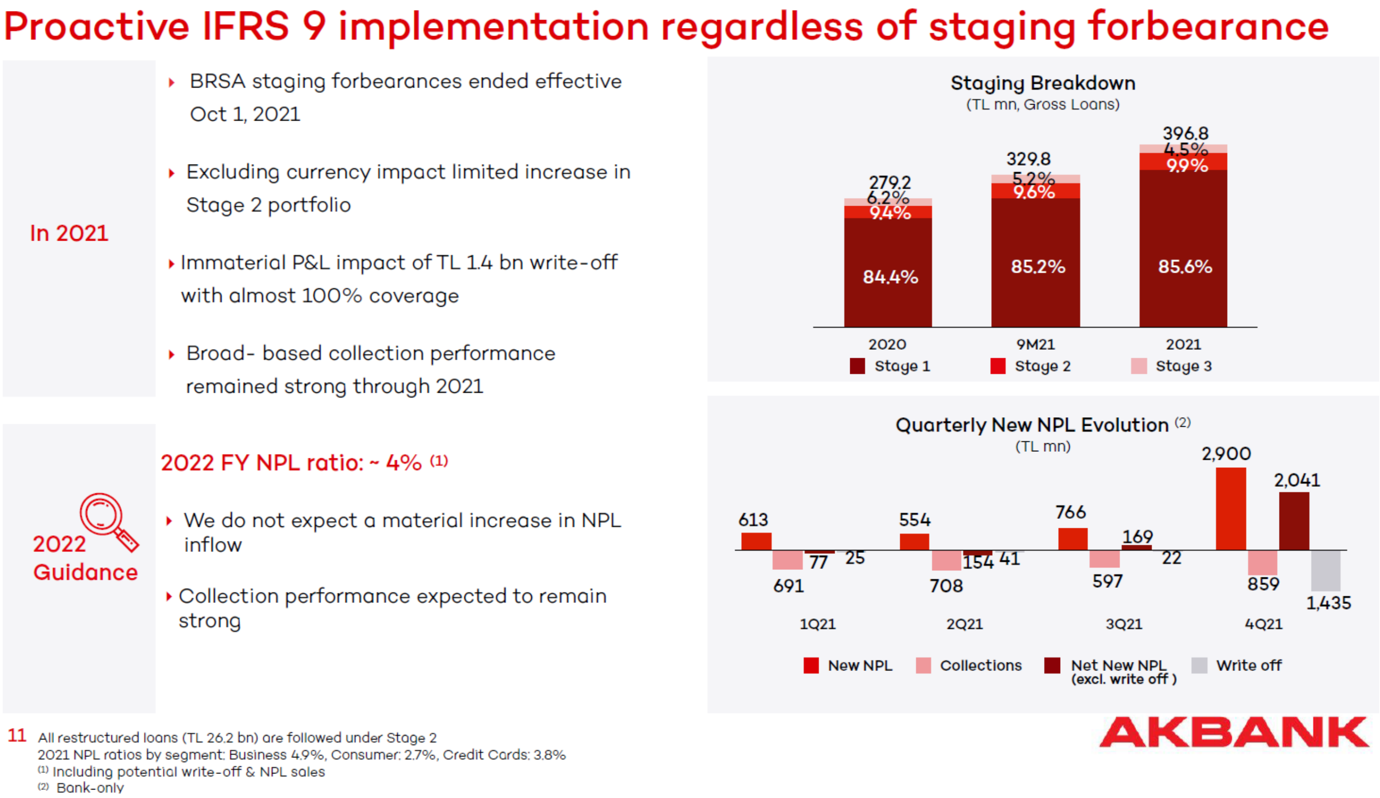
This year we expect once again fee growth to be strong, with over 35% yoy growth. We are well positioned to serve our clients through our digital channels with simplified processes and increased product availability.



Effective cost management remained our strong muscle as our full year OPEX growth resulted around average inflation, despite unprecedented currency volatility.

We continue to have a low cost base, which gives the bank a lot of flexibility, especially in higher inflation backdrop.

This year will be a challenging year, due to high global inflationary pressure as well as pass-through of weaker currency of last quarter. We expect opex growth to be inline with average CPI. However, revenues are expected to grow higher than costs, resulting with an improvement in CIR below 33%.



Moving onto asset quality, our proactive IFRS 9 implementation, despite the forbearances has proven to be effective. Please note that all staging forbearances have ended. Therefore going forward, it will be easier to follow the staging trends.

Our prudent approach throughout the years in staging, resulted in limited inflow to stage 2, when excluding currency impact. Also, collection performance remained very robust.

As for stage 3, we had TL 1.4bn write-off during the Q, with 35bps NPL impact with immaterial effect on P&L.

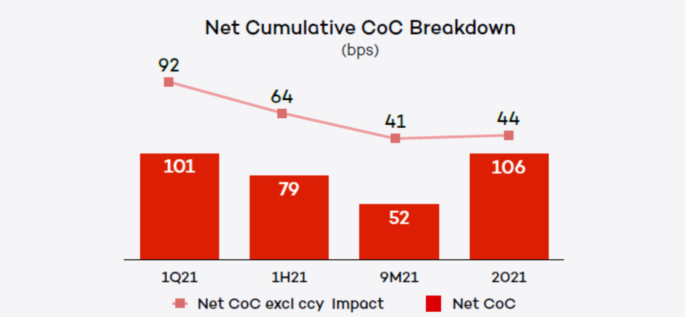
This year, since we have taken necessary actions on all major files, we believe there won’t be a material increase in NPL inflows, therefore expect our NPL ratio to be around 4%.

CoC evolution demonstrates long-term prudent risk management

In 2021

- YoY CoC evolution underlines much better FY performance vs guidance
  - Provision reversals in 2H driven by significant risk reduction & higher collateral values
- CoC performance underlines proactive provisioning regardless of forbearances & payment deferrals
- Solid coverage ratios & provision build
- FX provisions & LYY exposure are hedged

(%)	2020	9M21	2021
Stage 1 Coverage	0.6	0.6	0.5
Stage 2 Coverage	16.4	15.2	14.0
Stage 3 Coverage (1)	62.4	66.6	65.3
Free Provisions	TL 1,150 mn	TL 1,150 mn	TL 1,400 mn
Total Provision Build (2)	TL 16.6 bn	TL 17.8 bn	TL 18.7 bn



2022 Guidance

2022 CoC (excl. Currency): ~ 100 bps

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

12 (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

And finally, yet importantly, our net CoC evolution has fared much better than guided thanks to our strong risk discipline through the cycle as well as the strong economic recovery that took place in Turkey.

BRSA staging forbearance and payment deferrals scheme ended in 4Q with limited effect on our cost of credit. This is thanks to our prudent provisioning policy regardless of any forbearances.

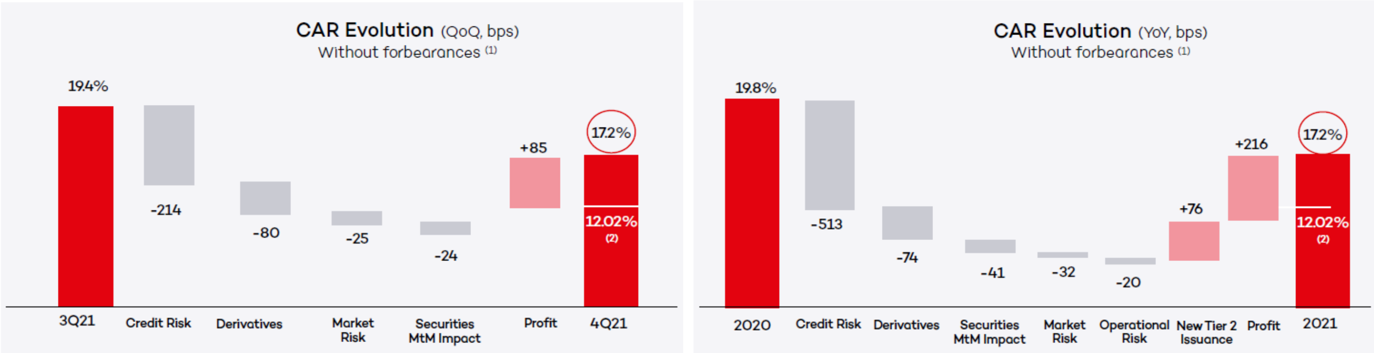
We ended the year with 106 bps net COC (including ccy), but majority of this came from currency weakness. Excluding currency impact, our net COC was only at 44 bps.

In 4Q, we booked additional TL 250mn as free provision, bringing the total amount to TL 1.4bn. Our collection performance from retail, corporate and commercial customer base also remained strong.

The slight decline in stage 2 coverage is due to some files with high coverage ratios moving into Stage 3. Also, adjusted for the TL 1.4bn NPL write-off. Our Stage 3 coverage would be almost 68%.

This year, we our coverage ratios are expected to remain around current levels. Also, we expect our net CoC excluding currency to be around 100bps. Our significant provision build and solid increases in collateral values will limit the need for additional provisions.

Capital remains a source of strength with robust buffers



(%, TL bn)	CAR	Excess Capital (3)	Tier 1	Excess Tier 1 (3)	CET-1	Excess CET-1(3)
Without forbearances (1)	17.2%	**29.3**	12.9%	**16.3**	12.9%	**24.7**
With forbearances (1)	21.1%	43.3	16.2%	29.2	16.2%	36.4

(1) Fixing MtM losses of securities & FX rate for RWA calculation to average last 12 month FX rate
(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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Strong profitability also reflected onto capital position as our internal capital generation partially offset the high currency volatility of the final quarter.

Our solvency ratios without BRSA forbearances remain well above regulatory limits at 17.2% total capital and 12.9% Tier 1 and CET1. Regulatory ratios are much higher, with CAR at 21.1%, Tier 1 at %16.2.

Our sound capital buffer serves as a shield against unprecedented challenges and volatility, and also creates ammunition for sustainable profitable growth.

2021: Financial strength & operational resilience remains intact

	2021 Guidance	2021	vs. Guidance
TL Loan Growth	~ 20%	+30.1%	Better
FX Loan Growth (in USD)	Flattish	-5.6%	Inline
Leverage	> 8x	10.0x	Inline
NIM (swap adj.)	20-30 bps contraction	3.2%	Below
Net fees&com. growth	High-teens	33.6%	Better
Opex growth	Mid-teens	22.2%	Above
Cost/ income [1]	≤34%	34.8%	Inline
NPL	<6%	4.5%	Inline
Net total CoC (incl ccy) [2]	<200 bps	106 bps	Inline
ROE	Mid-teens	17.9%	Better

2021
Cheat sheet

14 [1] CIR calculation excludes FX gain from hedge position related with stage 1&2 provisions and LYY exposure. The calculation excludes insurance penalty of TL 71 mn & BRSA penalty of TL 117 mn for 2020
[2] Net CoC excl. currency impact is 44 bps for 2021

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On this slide you may find the summary of our last year's solid results. So let's quickly move onto the next slide…

2022: Leveraging our strength while carrying out priorities

2022 Guidance

TL Loan Growth	~ 30%
FX Loan Growth (in USD)	Flattish
NIM (swap adj.)	~150 bps improvement
Net fees&com. growth	> 35%
Opex growth	Avg. CPI
Cost/ income [1]	< 33%
NPL [2]	~ 4%
Net total CoC (excl. ccy impact)	~ 100 bps
ROE	~ 30%

Key Drivers

- Macro assumptions:
  - ~ 30% YE inflation
  - 2022 Oct-Oct CPI linker valuation estimate: ~ 30%
  - GDP growth ~ 4%
- Our robust 17.2% CAR [3] & 12.9% Tier 1 [3] creates ammunition for sustainable profitable growth while providing resilience
- Consumer & SME driven TL loan growth with sustainable profitability and healthy market share gain in focus
- Tailor-made solutions for customers' transition to a low carbon economy
- Asset repricing, contained funding costs & proactive CPI linker positioning to be supportive for NII growth & NIM
- Improving trend in CIR with solid revenue contribution from all business lines
- Significant provision build & solid collateral values to limit additional provision need

15 [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
[3] w/o forbearances: Fixing MtM losses of securities & FX rate for RWA calculation to average last 12 month FX rate

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Throughout the presentation I have also shared this year's guidance. But just to reiterate:

- We expect 30% TL loan growth, led by consumer & SME
- While FX loans are expected to remain flattish
- Our swap adjusted NIM is expected to further improve by around 150bps
- And our fee growth is again guided to be robust, with growth over 35%
- Our opex is expected to remain around average CPI
- Resulting in an improvement in our cost to income ratio to below 33%
- As for asset quality, our NPL ratio is expected to improve to around 4% while our net CoC (excluding currency impact) is expected to be around 100bps
- All these will result in significantly improved profitability with an ROE of around 30%.

Hakan Bey, you mentioned at the beginning, we ended last year on very strong note.

As promised, we gained consistent market share in areas we targeted to grow, ie consumer & SME. Accelerated digital engagement and customer acquisition led to sustainable higher profitability.

Our resilience and years of investments in digital have enabled us to support our customers while managing risks during unprecedented times.

So, on top of last year's robust growth figures and market share gains, we now guide for around 30% TL loan growth this year. Taking into consideration all the headwinds globally, where & how will we achieve this?

Hakan Binbaşgil:

Thank you, Ebru. I think this is a very good question. First of all, last year as you rightly said, we had a great momentum. We had an exceptional growth. So as you said, when you look at some of the market share gains, like 160 basis in consumer loans, 175 basis in GPL, 60 basis in business loans. I think these are just remarkable figures in just 12 months. So when you look at the number of customer acquisitions last year, we acquired roughly 1.7 million customers and roughly one-third of it happened during the last quarter. So obviously, there was a significant contribution coming from the digital.

When you look at our sales, roughly 84% of our GPL sales are coming from the digital channels, around 52% of new credit card sales, about 53% of bank insurance sales. So these are really coming from the digital channel. There's a great contribution. And on top of this, as we all remember, at the beginning of May, digital on-boarding became available in the system, and Akbank actually did extremely well. So last year, 20% of our new customer acquisition came from that channel and that percentage has even increased towards the end of the year. Looking forward, I'm really very positive about the growth potential.

Last, but not the least, I would like to mention is our SME digitization projects. So we spent almost two years on this. When you look at the banks in Turkey, there are some very sophisticated banks in terms of digital capability and so on. Also globally, there are some very sophisticated digital banks. Banks are usually excellent on the consumer banking side, but SME is, for some reason, forgotten. Akbank has been trying to reverse this. We made significant effort in this. And we launched this SME new platform as of this January actually, this month. And I think this is the first of its kind in Turkey.

It is end-to-end seamless experience for the SMEs. But not only in banking products, there are some financial management services as well. We are actually connecting those SMEs to different platforms, HR solutions, e-commerce platforms and accounting systems. And on top of empowering SMEs, there is this ESG element as well, which is inclusion. So we made reaching banking services easier for SMEs in Turkey. I think this is also extremely important.

We also created this Akbank transformation academy, where there's a lot of training, seminars, networking facilities and so on. This ESG element is also very valuable looking forward. When we add all these together, the momentum, the capability of the bank, the strong financials, infrastructure, people, etc., this 30% seems to be relatively easy for us. It can be done.

Ebru Güvenir:

Talking about the retail side, there was an important reshuffling in the organization very recently. What was the rationale behind this?

Hakan Binbaşgil:

We divided the retail banking into two, consumer banking and SME banking, and there are a couple of reasons behind this. First of all, there is further focus. There will be even more focus looking forward both in consumer banking and SME banking. The bank has a lot of potential in this, but I think what is more important in the new structure, our EVPs are actually in charge of all the channels. When an EVP is responsible, let's say, for consumer banking, she is actually, responsible for all digital channels, branches, call center, ATMs, you name it and it is exactly the same for the SME part. There is this multichannel management, 360 degrees view, focusing on the customer, again seamless experience, excellent end-to-end processing. That is what we are actually aiming.

And on top of this, what I have to say, we don't have a digital banking division anymore. I think this is also something visionary and the reason is actually now the whole bank has become digital. Based on our numbers, roughly speaking, 40% of our customers they only use mobile banking, nothing else. They don't even do a single visit to the branch nor to the ATM. And the remaining 35% to 40%, there is a significant digital focus. Therefore, roughly 70% to 80% of our customers, one way or another are either completely digital or digitally focused. The bank has become digital. There's no reason to have another separate digital banking division. I think this is also something very visionary, futuristic looking forward.

I have lots of expectations out of this new organization and I think Akbank will be growing faster. I think we will be doing this cross-selling much better than what we used to do in the past.

We will be maximizing our revenues. It will be a better seamless experience benchmarking with ourselves and also benchmarking with the rest of the system in the country. I'm very positive and I think we did a very important strategic move looking forward. And I think eventually that will be the trend in the country.

Ebru Güvenir:

But, I have to be the devil's advocate. Akbank is known for its conservatism. So, how does this feed into our agility to seize the opportunities for sustainable profitability at the right time?

Hakan Binbaşgil:

And obviously, we are a prudent bank, I have to say. And in international standards also, our risk management is pretty strong. These are some of the strengths of the bank. But having said this, that doesn't really mean missing the opportunities. And now we have new technologies. We have advanced analytics which means the bank does this risk versus return analysis much better compared to the past. We know how to do this this risk-return optimization. Therefore, all we are looking forward to have is this sustainable profitable growth. This ambition is the same for everybody, for the major shareholder here, for the investors outside, for the senior management here, all the Akbank people. There's this common goal, sustainable profitable growth, having big share, more presence in the country. Therefore, what I would like to say, this momentum will continue. So we have all the ingredients. We have the highest level of capital among the peers. We have done significant investments in our digital and people. We have the state-of-the-art infrastructure.

We have aligned our organization around the customer. And that organization is actually targeting additional growth and, to be frank with you, no one has as much growth potential as Akbank has as of today. And the management is very eager, very motivated and very committed to create the leading bank of the country. We are not totally deviating from being a prudent and a good bank. I mean, the bank always has to be prudent but having said this, of course, we will be maximizing the revenues and tap the growth potential.

Ebru Güvenir:

Moving onto the funding side…obviously our solid deposit base remains to be the main source…As for wholesale, last year we further diversified it with our pioneering transactions in sustainable finance…exceeding our 30% target of ESG-linked funding for the year…ending above 40%...

This year we have a USD 500m T2 call due in March, which we actually prefunded last year… and a USD 500m Eurobond due in Oct as well as a total of USD 1.4bn equivalent of syndications. In light of all these redemptions, what are our borrowing plans?

Hakan Binbaşgil:

Ebru, first of all, I have to say that we have a lot of FX liquidity. When you look at our FX LDR, it is around 47%, a very low figure. And our FX lending over the last five years has decreased dramatically. It used to be around USD 22bn, now it is down to USD 12bn. FX asset creation is also not as easy as before. So this FX liquidity, I think will continue for a while. To actually summarize, we don't really need too much wholesale borrowing from outside.

And as you said, we have already prefunded this Tier 2, which will be maturing in March. And our plan is to call that Tier 2 and we have applied to BRSA, as you know, we have to take a permission from our regulator, and we have already written that we want to call this Tier 2. But having said this, of course, we have to follow the markets, we're opportunistic. If there is good pricing, availability of wholesale funding and so on, as we did like this summer, we can also prefund next year's call. Because there's another one coming in next year, we can also prefund this. We don't have to as of today. We will follow the markets.

All our wholesale funding by 2030, we already made a commitment, will be ESG linked. Last year, we made a great progress. We committed that it will be at least 30% and it turned out to be around 40%. I think this trend also will be continuing.

Ebru Güvenir:

Moving on to the revenues… Our prudent and proactive asset and liability management have led to a significant improvement in our NII generation during last year…Not only have we given utmost importance to LDR management but also have timely built up our CPI-linker portfolio with decent spreads… Türker, can you share with us what lies beneath our outlook for further NIM improvement during this year?

Türker Tunalı:

Thank you, Ebru. Net interest margin is one of the most important areas for the investor community. First of all, maybe we should start with the trend of last year. As you know very well, especially in the first three quarters of last year actually, net interest margin evolution was heavily impacted by high funding cost. Actually the funding cost evolution was above our expectations. One of the few areas where we had missed our last year's guidance. But when we come to the fourth quarter development, we have started to see gradual improvements in net interest margin.

When we assume we used 20% inflation starting from first quarter, which is CPI normalized NIM in effect, in fourth quarter it was 3.5%. So 3.5% versus full year of 3.2%, we have achieved roughly 30 basis points NIM improvement in the last quarter.

When we are coming to this quarter actually, what were the main contributors actually of that improvement, surely the main contribution has come from TL funding side, except for CPI linker. It has come from TL funding side, the policy rates cuts and also the easing on the deposit rates side have positively impacted our net interest margin. Our TL wholesale funding which is done mainly from CBRT at 14%, makes up roughly more than 10% of our interest earning asset. So, it gives a very significant support to our net interest margin evolution.

On top of it actually, what we can expect this year actually, currently deposit rates have stabilized. So back book back book and front book are at similar levels, like 17% to 18% levels, whereas the repricing on TL asset side is still continuing. Maybe just to give some details on that, we have less than 20% fixed income securities in our TL security book, and roughly 50% of these TL securities (lower yielding tickets) are going to redeem in the first nine months of this year. So the repricing of these securities will be NIM supportive. Similarly, on the TL loan side again, roughly 50% of our TL loans are going to redeem throughout the year and again the repricing will take part on that side. Surely, we should not forget our CPI-linker portfolio and FRNs which are making up more than 80%. We have already touched upon the potential impact of that CPI-linker portfolio on to our NIM. So therefore, actually we are quite confident with the NIM evolution. And we are operating in this quarter, with net interest margin, already above 4%.

And maybe as a final note, also on the deposit side, there has been some squeeze in TL deposit rates. We saw levels above 20% but now we are seeing a stabilization. And this new deposit scheme announced by Central Bank and Treasury is supporting to the stabilization. This will start creating a more healthy funding cost base, predictability has increased. The maturities are slightly increasing because of the structure of these products. So all in all, I can say so, we feel confident with the NIM guidance we have shared.

Ebru Güvenir:

Talking about sustainable revenue generation, digitalization has been a key enabler in diversifying our fee base. And with increased engagement, product availability and xsell we achieved a stellar growth in fees last year. On top of which we are guiding for over 35% increase in 2022. Can you share which areas you expect to be key contributors?

Hakan Binbaşgil:

Ebru, I think last year's success story will continue. We did a very good job. When you look at like payment systems, like bank insurance, money transfers, the growth was more than 60%. I think this positive trend will continue. So there has been a big focus especially on the retail side. Thanks to strong new customer acquisition last year, there will be a lot of contribution coming from the retail side, consumer, SME. And also our other strong businesses, like corporate, commercial, private banking... Subsidiaries, they are also very successful. They will all be contributing to this fee generation.

And I'm also very positive on the digital side because when you look at the cross-sell ratios of digital customer versus a regular non-digital customer, let's say. So the cross-sell ratio is twice as much. One thing that I also would like to mention is the wealth management side. So I see a lot of potential on the wealth management side as well and we have very good companies, subsidiaries. Now I'm proud to say that Ak Portföy became #1 in the country among privately-held asset management companies. That means more customers, more fee generation. Similarly, we have a very successful brokerage company, Ak Yatırım. I think they are also doing an excellent job. We have a very strong private banking practice. We have a very strong affluent bank practice. And as we all know, we are passing through a high inflationary period.

Ebru Güvenir:

Since we have mostly covered the revenue side, let’s move on to the costs. So Turker, how will we manage to improve our CIR further this year?

Türker Tunalı:

This has become area which we are discussing quite frequently with the investor community, especially in the last few months. Yes, there's a high inflationary environment, not only in Turkey, but also globally. This is impacting the cost of our sources, not only IT or other costs, but also HR costs are becoming more expensive, maybe it's not only bank specific. We see it in various sectors as well. We have guided for an increase at level of average inflation for next year. We have the lowest OPEX base among our peers and this gives us a really big flexibility. Maybe also to put it into figures, every 1% incremental increase in OPEX is impacting our gross net income by roughly TRY 100mn but the contribution we have from our CPI-linker portfolio, for every additional percent inflation, is TRY 500mn, so actually 5x. It's a big advantage and the expected revenue improvement of this year enables us to expect a significant cost to income ratio improvement for 2022.

Ebru Güvenir:

During the last two years staging forbearances, along with loan deferrals have made it difficult for investors to understand and compare credit quality evolution.

Türker, could you share what precautionary actions we have taken while growing? Especially following significant currency volatility, how will we preserve credit quality during another challenging year for both FC and TL loan books?

Türker Tunalı:

Maybe just to start with the overall portfolio approach…Credit risk management actually is one of strong muscles of Akbank. On the consumer and retail, we have heavily invested into sophisticated technologies for the automation of lending decisions. So, we have invested in artificial intelligence, machine learning and using big data. These all positively supporting to our asset quality evolution and I think the last year's evolution of the asset quality trend, despite all the difficulties, is actually a proof of that.

From portfolio perspective, including corporates and commercials, we also have a rule set in our lending policies. These credit policies are periodically reviewed, at least annually are reviewed and adapted, changes are made depending on the macroeconomic conditions. We have caps for different sectors, caps for different decision levels, caps for different rating levels. So all of these rule sets we are using are mostly contributed to our asset quality evolution, that's why actually, we can sleep comfortably.

Coming back to the FX side, where we have received quite lot of questions in the past. But I think sector sensitivity in the FX loan portfolio is not at the level as it used to be in the past. Also with the help of borrowing restrictions, we have observed deleveraging in the system. So therefore the sensitivity has decreased, real sector has started to use hedging mechanisms more frequently.

Short term net FX position of non-financials is roughly USD65 bn. So, they have a net long position for the first one year. It used to be negative or close to zero in the past. While we look at the total FX position, it is down to USD116 bn. It's still a short position but it used to be close to USD200 bn levels in the past. Therefore, the picture has improved significantly, we feel more comfortable on that. Some of FX loans may get into trouble like TL loans.

When we classify these loans into Stage 2, we take precautionary actions and we hedge our provisions for this exposures. So in a situation of currency depreciation, net P&L impacts is close to zero as you can also see from fourth quarter results.

Ebru Güvenir:

Hakan Bey, what about our LYY exposure? We all know that it is fully hedged, but it would be great if you could share some details on the latest developments?

Hakan Binbaşgil:

If you look, negotiations have started with Turkey Wealth Fund towards the end of the year and we have already made a public disclosure for this. It's a complex transaction and still going on. If there is additional and substantial progress, we will continue to share this with the investor community. But it is going on as planned.

And, there are lots of questions about the impact of this on our P&L. The carry value is in local currency and TRY7.3 bn. And on the other side, we have 20% of Türk Telekom shares and we kept this carry value unchanged even in a year like 2021 during significant FX volatility. I think the resolution of this will be for the benefit of all parties; banking system, the telco system and country itself. But there's a lot of work from both sites. That's what I can say at this stage...

Ebru Güvenir:

As a result of our proactive positioning, fortress balance sheet and sound long-term strategy, going forward, we expect a significant recovery in profitability…

Hakan Bey, could you summarize the key contributors that will help us achieve around 30% ROE this year?

Hakan Binbaşgil:

On the ROE side, we are quite positive looking forward. So the trend was very positive in our profitability, especially in the last quarter. There was a significant business growth. All businesses are performing very well actually from corporate, commercial to all the way to consumer, SME and subsidiaries, as I said before, they are also doing very well.

Turker mentioned about the funding cost. So there are positive developments. There is a good progress on the demand deposit side. So this CBRT funding is relatively inexpensive for certain extent we are utilizing this and there's this new deposit products which is also a longer maturity product with reasonable cost. So, all these together, I think that these are actually positive news for the funding cost, despite the level of inflation in the country. When you look at the asset yields actually, we expect positive impact, especially with retail loans with high margins… expring loans to be repriced higher…

These are all positive news and I think of course that the biggest item on the list is this CPI-linker portfolio. This is one of the largest in the country. We are now assuming 30% inflation and there is an upside potential for the October inflation figure.

Key part, fees and commissions. The progress is relatively good. Cost base, of course, because of the level of inflation and because of the exchange rate, there will be an increase but again everything is relative. Akbank has the lowest cost base. I think that is a great advantage over the competition.

And as Turker has mentioned actually, there is the CPI-linker portfolio versus the cost base. Revenue potential is like five times as much as the actually cost increase. That is also an extremely well-positioning for the bank and I mentioned about the capital adequacy ratio. So that is a great advantage. We have the appetite to grow the bank as long as it's profitable and sustainable and no one has a growth potential as much as we do given the capital adequacy ratio. On top of this all the infrastructure, people and analytical capabilities… So I feel very positive, I think the bank is extremely well positioned.

Ebru Güvenir:

And what about dividends?

Hakan Binbaşgil:

Yes, of course, Akbank has the highest dividend potential because of its highest level of capital adequacy ratio in the system and also Turker has mentioned this, but we have this high internal capital generation capability. So if it continues like this with the internal capital generation, we will put another 3% or 4% on top of what we have as of now. So that gives a huge potential for the bank, but as everybody knows, we have to take the permission from the regulator.

We received a letter actually, the whole banking system in Turkey about couple of weeks ago… limiting the dividend payments. But since our position with capital adequacy ratios is extremely strong, we applied for a dividend payment. So we are hoping to receive a positive answer but it is up to the regulator.

Ebru Güvenir:

Before moving onto Q&A, I would like to ask a few questions regarding our ESG strategy. As most of you know, our ESG strategy embraces a truly holistic approach.

Enabling us to move forward in a much more structured, focused and effective way, with measureable targets. As a quick reminder, we have 4 key pillars, namely:

- Sustainable Finance
- Ecosystems Management
- Climate Change
- People & Community

In order to achieve meaningful positive impact in these areas, we also announced actionable targets, becoming the 1st deposit bank in Türkiye to announce solid sustainability goals across both sides of the balance sheet.

During last year we increased our ESG disclosure and deepened our engagement with our stakeholders.

We were the first Turkish deposit bank to include ESG performance in our Q'ly Earnings results.

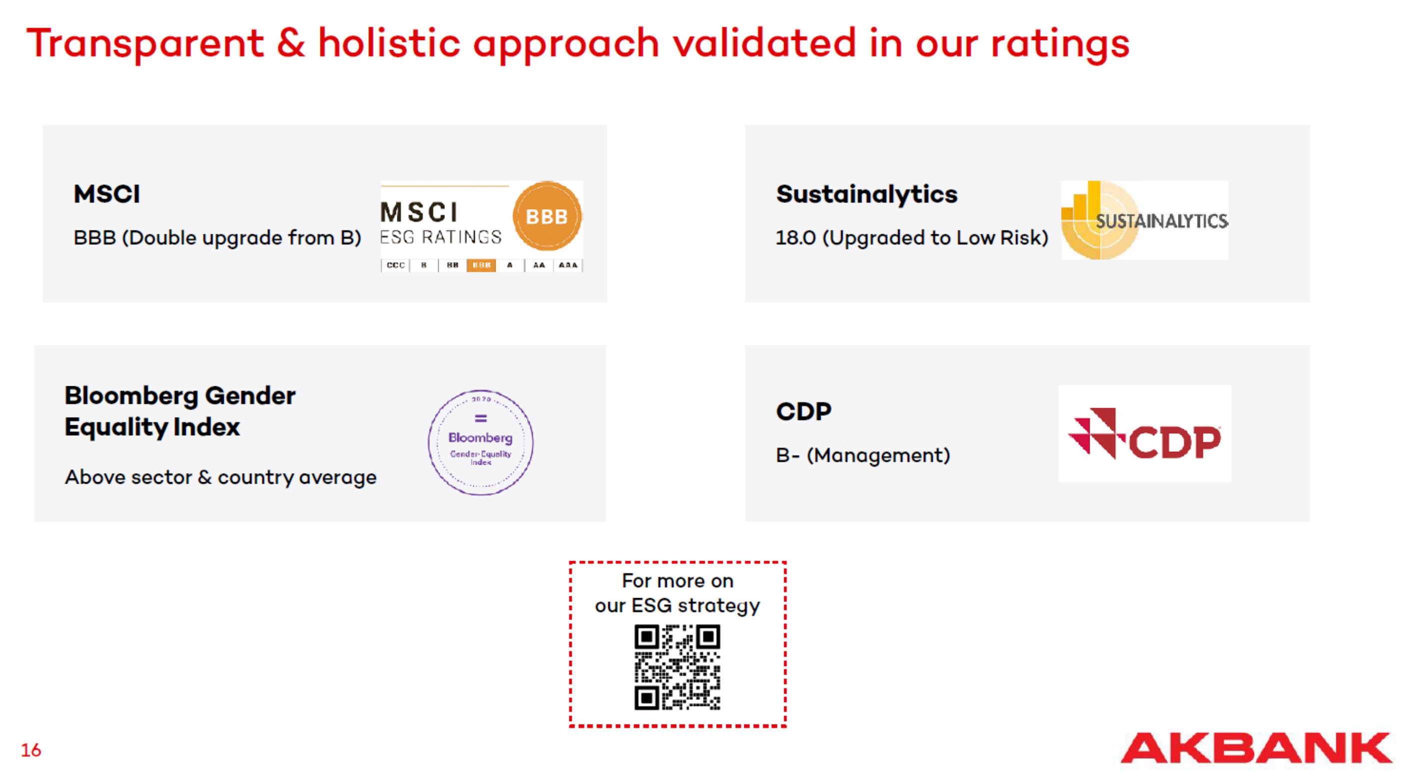
We published our 1st integrated report, providing wider range of data on non-financial performance with 36 non-financial indicators being assured by a 3rd party.

This year, we will soon publish our 1st integrated annual report for the fiscal year 2021 as well as CDP water report.

This is a long-term journey.

Last year we implemented over 100 actions successfully.

This year we have more than 100 actions and have increased the weight of ESG KPI in the bank's scorecard.



I am happy to share that our holistic, transparent approach was also validated by rating agencies last year, as we received a double upgrade to triple B by MSCI ESG Ratings and our ESG Risk Rating was upgraded to low risk category by Sustainalitycs as of November.

This year we will continue actively engaging with stakeholders, and also continue to transparently report ESG performance.

On that note, as a Bank perhaps the biggest impact we have on our stakeholders is through our financing activities. So, Turker could you please share the key developments and outlook for our Sustainable Finance pillar?

Sustainable finance for green & inclusive transformation

In 2021

On track for long-term goals in sustainable finance

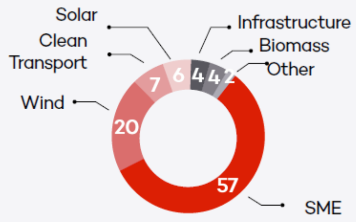
- Provided TL 25 bn sustainable finance (1)
- Launched Health Sector and Alternative Energy Funds (2), AuM reaching TL 2.5 bn, with over 55K investors
- Diversified product range tailored to needs of customers such as Blue Finance Package, Women-owned SME Program, Green Trade Finance

Pioneered ESG-linked funding transactions, totaling over USD 2 bn

- Published Sustainable Finance Framework with SPO
- Published Allocation Report with 3rd party assurance

Became member of UNEP FI Principles of Responsible Banking

Allocation Report
Eligible Projects Breakdown
(2020YE,%)



USD 2.3 bn eligible loan portfolio, w/ 3 yr lookback period (52% social, 48% green)

2022 Outlook

- More innovative solutions in lending & investment products
- 3-pillar strategy for sustainable loans: *Environment, Social & Technology*
- Further enhance sustainable Finance Framework
- Continue to focus on ESG-linked funding
- Publish Responsible Investment Policy

For more on sustainable finance

(1) Based on bank-only MIS data, includes: Granted SME loans (assessed through ESMS) & renewable loans, and ESG-type Eurobond & syndicated loan purchases
(2) Ak Asset Management

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AKBANK

Türker Tunalı:

Thank you, Ebru. Actually I am very happy that we we were able to show the significant progress last year on sustainable finance side. First of all, we know it very well that Akbank was the first deposit bank in Turkey, which has numeric targets for sustainable financing. We are committed to provide to real sector TL 200bn of sustainable loan financing until 2030. And we are well on track in this target. Only in one year we we were able to provide TL 25bn of sustainable finance.

And also simultaneously we have diversified our product range to better cater the needs of sustainable transformation. Just to name of some of these products, like green trade finance, package rooftop solar panel investment loans, are some of these products. I believe, as we just progress, with that progress we have shown in the first year, we'll be able to reach our target, much earlier than 2030. So, I'm very optimistic on that.

We have also become the signatory of UN Principles of Responsible Banking with further steps we have taken. We are aiming for more products to our customers with innovative solutions in order to support the transition to a low carbon economy.

Coming back to the sustainable linked funding… Again, major steps have been achieved. First of all, we have pioneered sustainable linked transactions and our ESG-linked funding has exceeded USD 2bn in 2021. We had an aim of converting our wholesale funding of 30% to ESG-linked funding in 2021, but we are already above 40%. We have published our first allocation report during last year for 2020. This allocation report has received third-party assurance and we will issue our 2021 report in this quarter. So again, looking ahead in this area, we want to roll over our syndicated loans again with ESG KPIs in 2022. And we have another ambition. This ambition is actually to convert our wholesale borrowing to almost 100% into ESG linked by 2030. And we want also to enhance our sustainable finance framework this year as well. So this will be the homeworks we are focusing this year.

Ebru Güvenir:

The sustainable finance framework will be published in the first quarter along with allocation report as well.

Türker Tunalı:

Perfect. Thank you. Thanks for the contribution and maybe also finally on the subject of investing side. We are offering different products at ESG-linked products to our customers who want to contribute to post unfortunate environmental change. And again, we had any another target in the field as well. We wanted to achieve an AUM of TL 15bn by the end of 2030.

And in this regard Ak Asset Management, our successful subsidiary, has issued two ESG themed investment funds, namely health sector funds and alternative energy fund. And these funds have already reached an AUM of TL 2.5bn in one year compared to target of TL 15bn by 2030. I think we will be able to achieve this target much earlier. So I'm very happy on that. And also another important thing is the number of investors, who have invested into these funds. They are more than 55,000.

We have issued a social bond this year in the amount of TL 340mn. It's again first social domestic bond issued in Turkey. And so again in 2022, we are going to further focus for the diversified ESG-linked funds.

Advance efforts to mitigate environmental footprint & manage climate risk

In 2021

Enhanced Environmental & Social Policies to mitigate portfolio impact & exposure

- Non-financing activities scope expanded to include:
  - New coal (thermal) power plant projects
  - Coal mining, coal transportation and power plants operating with coal for SMEs
- E&S Risk Assessment for new commercial loans reduced from USD 50 mn to 10 mn

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

- 60% of the bank's electricity sourced from renewable resources
- Commitment to use recycled materials for all credit cards by 2022
- ISO 50001 (Energy Management) & 14000 (Environmental Management) certifications obtained for 42 branches, HQ, Data & Living Center

For more on environmentally friendly cards

2022 Outlook

- Further integration of climate risks & opportunities to minimize portfolio impact & exposure
- Expand ISO 50001 & 14000 certificates to include to more branches
- Increase electricity sourcing from renewable resources

For more, please see our integrated report

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AKBANK

Ebru Güvenir:

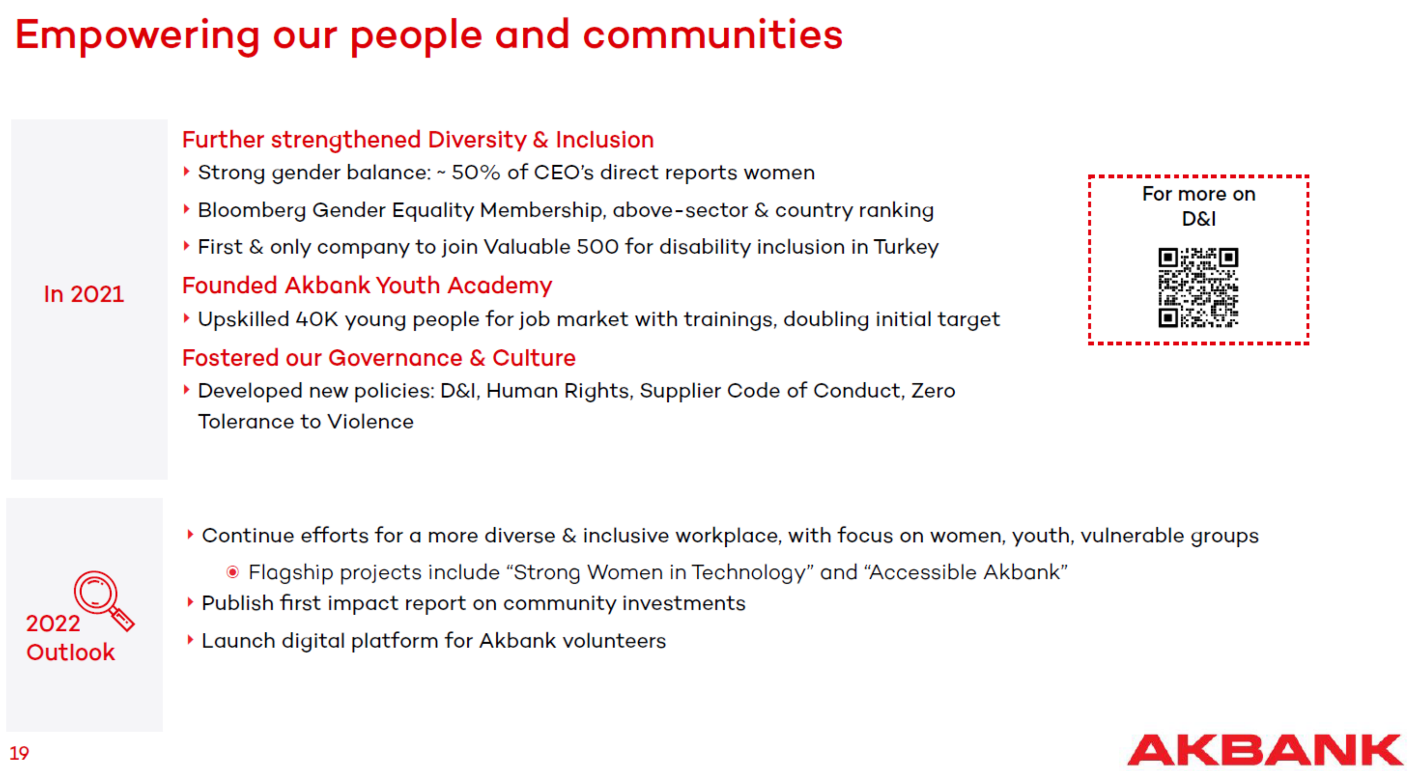
So this is all great. But what about the climate change? …the second pillar… Could you share how we managed this risk as well?

Türker Tunalı:

Last year, we revisited our environmental and social impact assessment process. We reduced our threshold from USD 50mn to USD 10mn for project finance and new investments deals.

Also, we have expanded our non-finance activities during the last year, included new coal power plant projects. We also included coal mining, coal transportation, power plants for SMEs. These have been excluded from our finance activities as well and also we have started a new project to better quantify and manage our risks and opportunities on the climate change side, which we aim to finish by this year. So with this project, we are aiming to enhance our technical, technological and government infrastructure for the integration of climate risks and opportunities into our lending practices as well as policies. We are also on track on our carbon neutral target for scope one and scope two as of end of 2025. We have already using more than 60% of our electricity from renewable energy… that was another target for last year and we have achieved that.

And we plan to further increase usage of renewable resource in electricity consumption during this year. We also received energy efficiency and environmental management related ISO certificates in 2021 for our headquarters, for our operations center, and for our 40 branches. We are aiming to include all our branches and buildings until the end of 2023. So it's a very long journey, but I think the progress we have shown in this last year was quite promising.



Ebru Güvenir:

Thank you, Türker. Now moving on to how we empower our people and communities? Hakan Bey, could you please mention some of the key developments in this area?

Hakan Binbaşgil:

Sure. Ebru, first of all, there is a very strong representation of women at Akbank. And I'm actually very proud of this. So 53% of our people are women, but actually, this is common in banking, 50% to 55%. It's not the really game changer. But what I'm really very proud of is the leadership roles at Akbank. I'm happy to say that 50% of my direct reports are women. And when you look at our technology side, roughly 40% of the technology people in our bank are women.

And the share of women in revenue generating roles, it is 56%. I think this is another remarkable figure. We have a well deserved international recognition of it. OMFIF, ranked us among the top five banks globally. And they also ranked us as the #1 bank in the emerging markets in terms of gender equality. I think this is something very valuable for us.

Bloomberg GEI, Gender-Equality Index, we became a member in 2021. And this year for the second time, we ranked above sector averages. We have also released new policies to foster governance and culture, like diversity and inclusion, human rights, zero tolerance to violence policies, Supplier Code of Conduct and so on. So there is actually a lot of work going on in the bank.

Another initiative of the bank, which I'm very proud of is this Akbank Youth Academy. This is actually almost one and a half years old. This is a new initiative. We are providing training to young people outside of work. These people have nothing to do with Akbank, young people, and in the new areas like artificial intelligence, advanced analytics, robotics, design thinking, sustainability and cybersecurity. Last year we were aiming to actually train 20,000 young people talents in the country, but that turned out to be 40,000. I think this is a very outstanding figure and I'm very happy with this initiative of Akbank. I think this is something valuable for the country and also in terms of ESG.

And also now Akbank among the Valuable 500 companies for disability inclusion. And I think it is the first company, if I'm not mistaken, to join from Turkey. These efforts will obviously continue.

Innovative products & services to enhance businesses and financial health

In 2021

Supported financial health with digital capabilities

- Provided close to 30 mn unique customized financial insights per month
- Published 37 "how-to" videos on our mobile app, to enhance financial literacy

Became founding member of UNEP FI Financial Health & Inclusion

- Pledge to disclose measurable targets in financial health & inclusion by 2023

Leveraged innovation & strategic partnerships

- Interacted with 300 innovation hubs, startups & universities
- Partnerships with to empower SMEs

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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AKBANK

Ebru Güvenir:

So when we think about our ecosystem in addition to our people and communities, we also want to empower our customers. And as I mentioned earlier, ecosystem management is one of our key pillars. You already briefly mentioned… But could you also maybe talk about the holistic approach that we have on this side as well on the ecosystem management side?

Hakan Binbaşgil:

The financial health of our customers, of course, is very critical, and we spend a lot of effort in this to empower our customers. And actually there's a lot of innovation, technology, advanced analytical tools, big data usage to provide such services in the bank. Now we have roughly 30 million meaningful customized insights for our customers. There is a lot of analytical word behind this. We are trying to innovate, train, and educate our customers.

There is this digital and financial literacy guidance where we are spending a lot of time and effort. Again, this is to train, educate our customers. We became one of the founding signatories actually of UNEP FI Financial Health and Inclusion Commitment. This is something important in the international arena.

And we have Akbank Lab. This is another initiative that's been going on for about several years. There is this interaction with over 300 innovation hubs, startups, universities, in the country and outside the country, all the way from Silicon Valley to all different places around the globe.

We spent a lot of effort on the SME side as well along with the consumers. They are like the backbone of our economy, 50% of GDP and 75% of employment in the country. So we have lots of partnership programs with industry leaders and so on. We have banking products, and beyond banking products, and we will continue with all this. ESG is a great focus area for us, and we have been spending a lot of efforts.