

AK FAKTORİNG A.Ş.

Long-term National Credit Rating: **TR BBB**
Short-term National Credit Rating: **TR A2**
Outlook: **Stable**

Istanbul, 26 March, 2021 – Ak Faktoring A.Ş. (hereafter Ak Faktoring or the Company) has been assigned a Long-term National Credit Rating of TR BBB and a Short-term National Credit Rating of TR A2. The Company’s strong shareholder structure, 2020 growth performance, diversified funding structure and experienced management team are among the factors that support the ratings. Profitability ratios constrained by provision and financial expenses, decreasing equity ratio and productivity ratios, and NPL ratio above peer group and sector average are the factors that constrained the ratings. Nevertheless, the potential negative effects of the possible complications and uncertainties to be caused by the corona virus epidemic, which has reached a pandemic level in the world and is at risk of reaching serious dimensions in our country, on the performance of the financial sector and on the real sector companies in 2021 and beyond, as well as the potential effects on the household demand and payment capacities have become the most basic factor that constrain our ratings. We view the outlook as stable with the expectation that the Company will maintain its current performance.

Financial and Operational Support of the Main Shareholder: Founded in 1992 Ak Faktoring was acquired by Altınhas Holding A.Ş. (hereafter Altınhas Holding) in 2011. After the acquisition, the business processes and the organizational structure of the Company were renewed. In 2020, the shareholder structure of the Company was changed and Birikim Varlık Yönetim A.Ş. (hereafter Birikim VYŞ), one of the group companies of Altınhas Holding, has been included in the shareholder structure. Altınhas Holding is also the main shareholder of Altınbaş Holding A.Ş., which has 60 years of experience, and is a well-established holding that has investments in the fields of finance, education, retail and real estate in the country and in the field of banking abroad. Considering that Ak Faktoring is the flagship of the group in the field of finance, we thought that Altınhas Holding has the will and the capacity to provide financial support to the Company, when necessary.

Business Model Based on Corporate Firms: The Company works with corporate firms in accordance with its business model and only carries out irrevocable factoring transactions for which domestic risk is undertaken. Considering the sectoral distribution of net factoring receivables of the Company, which has 1,143 customers in 2020, the construction sector, in which the subcontracting system is predominant, takes the lead, but the Company also provides services to the customers in the healthcare, chemical and pharmaceutical sectors. Working with corporate firms, the Company carries out its business activities from its headquarters and does not have a branch.

Growth with Strategy Change: Having a transaction volume of TL900.0 million in 2016 and 2017, the Company shrunk after the crisis in 2018 and reduced its transaction volume to TL371.6 million in 2019. Due to the downsizing and increasing NPL, the Company changed its strategy and there was a change in the senior management. After the restructuring of the Company in 2020, the growth accelerated, and the transaction volume reached TL796.1 million with an increase of 2.1 times. With the increasing transaction volume, the Company’s net factoring receivables and assets increased by 2.2 and 2.1 times, respectively.

Diversified Funding Structure: The Company funds its activities with bank loans, funds obtained from Takasbank and other factoring companies, and the commercial bonds that it sells to qualified investors. The Company has bonds of TL30.0 million in circulation. The diversification of the Company’s funding sources provides flexibility in managing the funding cost and maturity.

Constrained Profitability: The Company's net interest margin has been above both the peer group and the sector for the last five years. However, the narrowing interest margins in the factoring sector in 2020 also affected the net interest margin of the Company and it decreased from 8.5% to 6.8%. With the effect of the increase in business volume in 2020, the Company's factoring income increased by 37.0% and net profit increased by 9.0%. However, it has still not achieved the profitability performance of approximately TL11.0 million between 2016-2018. Provision expenses increased by 3.6 times and financial expenses increased by 40.0%, constraining the main operating profit and the net profit of the Company.

Decreasing Equity Ratio: In 2020, the Company's paid-in capital was increased from TL34.0 million to TL50.0 million by meeting from extraordinary reserves. In addition, the Company's equity increased by 5.7%, as the net profit of the Company increased by 9.0% in 2020. However, due to the fact that the Company's asset growth rate is higher than the equity growth rate, the equity ratio decreased from 35.8% to 18.0%. Peer group's average equity (23.9%) is above the Company's equity ratio.

NPL Ratio: The Company managed the nominal NPL amount, which increased in the previous years, by transferring its receivables to Birikim Varlık Yönetim A.Ş., which is a group company. All of the nominal NPL amount in 2020 consists of receivables past due 360 days, and the fact that no provision was allocated for all these receivables is one of the factors that constrained the ratings. The initiation of a special provision for the high amount of receivables from a company transferred to Savings Deposit Insurance Fund in 2021 was considered positive. The NPL ratio of the Company decreased from 8.0% to 4.7% due to the growth in its gross factoring receivables, and it was close to the NPL ratio of the peer group and above the NPL ratio of the sector.

Productivity: While the Company's revenues increased in 2020, the cost/income ratio diminished due to the decrease in operational expenses because of the number of personnel. This cost/income ratio performance is above 2019. However, the cost/income ratio is far from its performance between 2016-2018, as the Company could not reach the revenue level of the previous years. Despite the decrease in the number of employees of the Company, operating income per employee is below the operational expenses per employee. The reason for this is depreciation expenses included in operational expenses within the scope of TFRS 16 and infrastructure investments in information systems.

Ak Faktoring's Selected Financial Indicators

(1,000 TL)	2016	2017	2018	2019	2020
Total Assets	428,192	439,918	166,959	195,119	409,528
<i>Asset Growth (%)</i>	6.7	2.7	-62.0	16.9	109.9
Total Factoring Receivables (Net)	405,889	414,595	144,742	167,257	372,147
<i>NPL Ratio (%)</i>	5.1	7.4	7.8	8.0	4.7
Equity	59,176	62,954	66,216	69,799	73,792
<i>Equity/Total Assets (%)</i>	13.8	14.3	39.7	35.8	18.0
Factoring Income	91,796	92,295	92,115	42,493	58,197
Net Factoring Income*	21,035	23,014	22,935	12,794	13,864
<i>Net Interest Margin (%)**</i>	8.5	7.7	9.8	8.5	6.8
Factoring Operating Income/Loss	11,537	13,450	12,219	2,631	4,497
Net Profit	12,267	11,330	10,846	3,604	3,927
ROAA (%)	3.0	2.6	3.6	2.0	1.3
ROAE (%)	30.8	23.0	20.3	5.9	5.8

*Net Factoring Income = Interest and commission received from factoring receivables-Interest and commission paid to borrowings+/-Foreign exchange profit/loss+/-Derivatives profit/loss-Loan loss provisions

**Net Interest Margin = (Factoring interest and commission income-Financial expenses)/Average of Interest Earning Assets