

AK FAKTORİNG A.Ş.

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

Istanbul, 26 March, 2022 – The Long-term National Credit Rating of TR BBB and the Short-term National Credit Rating of TR A2 of Ak Faktoring A.Ş. (hereafter Ak Faktoring or the Company) have been affirmed. The Company’s strong shareholder structure, diversified funding sources and experienced management team are the factors supporting the ratings. Risky sectoral distribution of the Company’s factoring receivables, constrained profitability rates due to provision expenses, high NPL ratio and low equity ratio are the factors that constrain the ratings. We view the outlook as stable with the expectation that the Company will maintain its current performance. Due to the high NPL ratio, the Company’s NPL collections will be closely monitored throughout 2022.

Support of the Main Shareholder: The main shareholders of Ak Faktoring, which was established in 1992, are Altınhas Holding A.Ş. (hereafter Altınhas Holding or the Holding) and Birikim Varlık Yönetim A.Ş., one of the group companies of Altınhas Holding. 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.

Diversified Funding Sources: The Company funds its activities with bank loans, funds obtained from Takasbank and other factoring companies, and commercial bonds that it sells to qualified investors. As of 15.03.2022, the Company has a total of TL64.0 million of commercial bonds in circulation. The diversification of the Company’s funding sources provides flexibility in managing the funding cost and maturity.

Experienced Management Team: The Company’s Board of Directors consists of five members, and there is no independent member of the Board. Members of the Board of Directors hold senior positions in the main shareholder Companies which are Altınhas Holding and Birikim Varlık Yönetim A.Ş. This situation is beneficial in terms of ensuring coordination between the shareholders and the Company. Moreover, the General Manager and the Assistant General Manager have more than 20 years of experience in the field of banking and finance.

Risky Sectoral Distribution: When the distribution of net factoring receivables for 2021 is analyzed, we realized that Ak Faktoring concentrates on the tourism sector (17.0%). However, since the tourism sector is likely to take a hit severely because of the war between Russia and Ukraine, the concentration in the mentioned sector is considered to have a risk in increasing the Company’s nominal NPL in the future. The Company’s receivables in this sector will be closely monitored.

Profitability Constrained by Provision Expenses: In 2021, Ak Faktoring’s interest income grew by 2.1 times, owing to the increase in its net interest margin. However, the growth in net factoring income was limited to 70.3% due to the fact that financial expenses also increased by 2.4 times. Despite this growth, the increase in the provision expense from TL5.7 million to TL17.6 million constrained the net profit. For this reason, Ak Faktoring performed in 2021 with profitability rates below the peer group¹ and the sector.

¹ As peer group, Akdeniz Faktoring and Kent Faktoring have been chosen as similar companies with which Ak Faktoring can be compared in terms of asset size, net factoring receivables, shareholders’ equity, number of personnel and branches.

High NPL Ratio: Based on the Board of Director’s decision dated 31.01.2021, the Company Management has written off its receivables amounting to TL6.5 million. Despite the aforementioned receivables that were written off in 2021, the NPL ratio increased from 4.7% to 10.0% due to the increase in the nominal NPL by TL25.6 million. NPL ratio of the Company is above both the peer group and the sector. The Company’s open credit risk [(Nominal NPL Amount-Provisions)/Total Equity] is 29.8%, well above the peer group (7.7%) and the sector (% 1.7).

Equity to Be Strengthened: The equity ratio of the Company, which was 17.1% in 2021, is in line with the sector, but remains below the peer group (21.2%). Considering the high NPL ratio of Ak Faktoring, we thought that the Company should strengthen its capital.

Ak Faktoring’s Selected Financial Indicators

(1,000 TL)	2017	2018	2019	2020	2021
Total Assets	439,918	166,959	195,119	409,528	456,652
<i>Asset Growth (%)</i>	2.7	-62.0	16.9	109.9	11.5
Total Factoring Receivables (Net)	414,595	144,742	167,257	372,147	392,485
<i>NPL Ratio (%)</i>	7.4	7.8	8.0	4.7	10.0
Equity	62,954	66,216	69,799	73,792	78,139
<i>Equity /Total Assets (%)</i>	14.3	39.7	35.8	18.0	17.1
Factoring Income	92,295	92,115	42,493	58,197	124,564
Net Factoring Income*	23,014	22,935	12,794	13,864	15,818
<i>Net Interest Margin (%)**</i>	7.7	9.8	8.5	6.8	8.0
Factoring Operating Income/Loss	13,450	12,219	2,631	4,497	4,909
Net Profit	11,330	10,846	3,604	3,927	4,323
ROAA (%)	2.6	3.6	2.0	1.3	1.0
ROAE (%)	23.0	20.3	5.9	5.8	6.0

*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