

## Corporate Credit & Issue Rating

New  Update

Sector: Factoring

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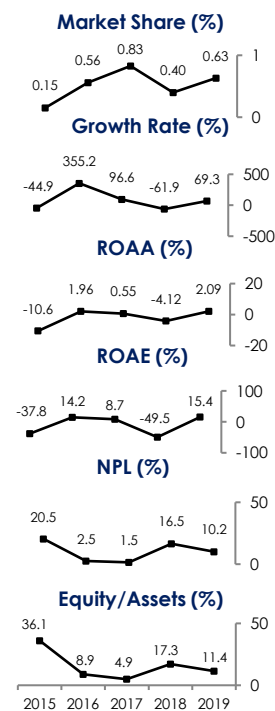
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## RATINGS

		Long Term	Short Term	
International	Foreign Currency	CCC	C	
	Local Currency	CCC	C	
	Outlook	FC	Negative	Negative
		LC	Negative	Negative
Issue Rating	-	-		
National	Local Rating	BBB- (Trk)	A-3 (Trk)	
	Outlook	Stable	Stable	
	Issue Rating	BBB- (Trk)	A-3 (Trk)	
Sponsor Support		3	-	
Stand-Alone		B	-	
Sovereign*	Foreign Currency	BB+	-	
	Local Currency	BB+	-	
	Outlook	FC	Negative	-
LC		Negative	-	

\*Assigned by JCR on April 10, 2020



## Arena Faktoring A.Ş. Company Overview

Financial Data	1H2020	2019*	2018*	2017*	2016*	2015*
Total Assets (000 USD)	33,924	39,283	26,201	95,930	52,117	13,908
Total Assets (000 TRY)	232,565	233,350	137,842	361,839	184,068	40,438
Equity (000 TRY)	28,503	26,546	23,826	17,764	16,372	14,603
Net Profit (000 TRY)	1,968	2,737	-8,929	1,405	1,764	-5,677
Market Share (%)	-	0.63	0.40	0.83	0.56	0.15
ROAA (%)	-	2.09	-4.12	0.55	1.96	-10.55
ROAE (%)	-	15.43	-49.47	8.73	14.17	-37.77
Equity/Assets (%)	12.26	11.38	17.28	4.91	8.89	36.11
NPL (%)	11.13	10.20	16.54	1.48	2.51	20.49
Growth Rate (%)	-0.34	69.29	-61.91	96.58	355.18	-44.86

\*End of year (Audited)

Arena Faktoring Anonim Şirketi (hereinafter referred to as 'Arena Faktoring', or 'the Company') was founded in 2009 and been acquired by the current shareholders in 2015. The Company operates through two offices, in Istanbul and Ankara each, in addition to the headquarters in Istanbul.

The Company had an annual turnover of TRY 520mn in 2019 and expects a modest record in 2020 due to the pandemic.

The Sector is supervised by Banking Regulation and Supervision Agency of Turkey (BRSA) and market players are members of Associations of Financial Institutions, an umbrella organization for factoring, leasing and consumer finance companies.

JCR Eurasia Rating, in its periodic review, has evaluated the consolidated structure of 'Arena Faktoring A.Ş.' and 'Outstanding and Potential Bond Issuances', and has affirmed Long Term National Rating as 'BBB- (Trk)/Stable'.

### Strengths

- Low impairment to turnover transformation, indicating resilient underwriting policies
- Strong sponsor support of shareholders
- Diversified funding mix via bond issuances
- Experienced management team well organized management infrastructure

### Constraints

- Narrow interest margin and cost cover
- Global recessionary concerns and negative shock of the pandemic
- Pressure on the non-financial sector due to demand shock, macro uncertainties and global recession concerns, potentially weighing on asset quality
- Significant competition in the Sector due to fragmented market structure

## 1. Rating Rationale

The basis of the rating report is independent audit reports of Arena Faktoring and statistical data on the sector compiled by Association of Financial Institutions and BRSA. When applicable, JCR Eurasia's own analyses, estimations and calculations are incorporated into the report. Information related with the loan book concentration and borrowing term structure, along with base line projections are provided by Arena Faktoring management.

In Turkey, Banking Regulation and Supervision Agency (BRSA) regulates and oversees the activities of the Turkish Factoring Sector since 2006. The Leasing, Factoring and Financing Companies Law No. 6361, the Factoring Sector's first, came into effect on December 13, 2012. Moreover, a regulation regarding organization and operating principals of financial leasing, factoring and financing companies entered into force on April 24, 2013. According to BRSA statistics, the total asset size of the Turkish Factoring Sector rebounded to TRY 34.61bn (YE2018: TRY 37.02bn) and comprised 56 factoring companies, down from 59 in the previous year.

No separate rating report has been compiled as the resources obtained from the bond issue will be carried in the Company's balance sheet and has been subject to analysis in the corporate credit rating report. The planned bond issue carries no difference in comparison to the Company's other liabilities with respect to its legal standing and collateralisation. As such, the notations outlined in the corporate credit rating report also reflect the issue rating but do not cover any structured finance instruments.

Both quantitative elements such as interest margin, liquidity structure, solvency indicators, the capitalization level, asset quality, and qualitative factors such as business strategy, risk management policies, the management and ownership profile have been taken into consideration for assigning the long term national and international local and foreign currency grades.

Main rating considerations are as below;

### *Diversified Customer Base in the Sector*

Compared to the previous year, the Company's loan portfolio is more diversified in order to manage the concentration risk which had been at stake for a long period. In this regard, top 10 loan customers constitute 25 % of the portfolio by FYE 2019 whereas this figure was 35 % in the previous year.

### *Low Impairment to Turnover Transformation*

While the reported NPL figure of the firm is high due to legacy impairment from the previous periods, the current turnover to impairment transformation is quite limited. In fact, in 2019 the Company recorded TRY 2.37mn of additional provisions with an annual turnover of TRY 520mn, indicating .4% conversion.

### *Diversified Funding Structure Through Bond Issuances*

Arena Faktoring uses a diversified funding mix including bank loans, factoring borrowings and debt instruments with a relatively long tenor of 2 years considering the average of the Sector. Considering the average maturity of the factoring receivables around 3 months, the ability to raise long-term funding supports the liquidity profile.

### *Narrow Net Interest Margin*

Arena's net interest margin compares lower to the Sector average and modest compared to the peers. On the other hand, we calculate NIM of 1.09% (Sector 8.06%) as of YE2019 as net interest income over average earning assets, hence excluding net fees and commissions. In 2019, the Company recorded net fee and commission revenues of TRY 5.85mn.

Similar to net interest margin, primary profitability indicators, ROAA and ROAE compared lower to the Sector averages, primarily due to higher than average financing costs.

### *Stable management & ownership focusing on sustainability*

Arena's primary shareholder is Tezmen Family, who have significant experience and investments in the finance

sector. Within the scope of risk management and corporate governance, the Company has established its internal control environment by defining risks and the controls associated with them as well as regularly exercising internal control practices. The firm publishes an annual report, on its corporate webpage offers information about the operations and risk management profile.

### ***Falling interest rates and consequently tightened net interest margin in 2020 and onwards***

Rapid rate cuts by the CBRT is reflected in the financial markets and the factoring companies are pressured to lower their rates, pressing on the margins. While the net interest margin could still reach double digits, the wide spread experienced in the 2019 will likely be unavailable.

Additionally, funding conditions for the factoring companies are prone to policy risk, as CBRT has been influencing the underwriting policies of banks via introducing and revising the calculation methods for ascertaining required reserve interest rate mechanism which affects both interest rates and sector allocations.

### ***Global recession concerns and demand shock exacerbated via global pandemic***

Several massive downside risk factors have weighed in so far in 2020, led by the Covid-19 pandemic and the oil shock, introducing historical volatility in the financial markets and resulting in a bleak macro outlook with demand shocks. Domestic impact of these factors will likely result in poor revenue generation in the non-financial sector and possibly weakened customer spending.

### ***Intensive competition and skewed market structure with the dominance of bank-owned factoring companies***

The sector has a fragmented structure and bank-owned factoring companies have a clear size domination, easier access to funding and distribution channels via their parents' branch network. Certain companies mainly target bank-clients with short term liquidity needs, while others focus on more risky, small SME's which accept higher interest rates to compensate for their riskiness. Still, the competition is heavy in both fronts, with the ability to finalize the loan application rapidly and with attractive rates

massively important. In this sense, the market forces put a significant pressure on the players.

With respect to the mentioned factors above, JCR Eurasia Rating has affirmed National Local Rating Note of Arena Faktoring A.Ş. as **'BBB- (Trk)'** in the Long Term, which donates an investment grade and affirmed **'A-3(Trk)'** in the short term with a **'Stable'** outlook. The Company's Long Term International Foreign Currency and Local Currency ratings of **'CCC'** reflect the Global to Local rating mapping of JCR-ER and the sovereign rating of Turkey **'BB+'**.

## **2. Outlook**

JCR Eurasia Rating maintains the **'Stable'** outlook on the National Long-Term Rating perspectives of Ekspo Faktoring, accounting for the significant macroeconomic pressures, supply shock via the Covid-19 pandemic and the Company's strong capitalization and modest risk appetite.

JCR Eurasia Rating will continue to monitor developments in regard to the proposed projection and will evaluate Ekspo Faktoring's growth strategy, profitability indicators, debt-level and the health of its equity.

The Company's Long Term International Local and Foreign Currency rating outlooks are **'Negative'**, mirroring the rating outlook of Turkey assigned by Japan Credit Rating Agency, Ltd.

Significant factors that may be taken into consideration for any future change in ratings and outlook status:

#### Positive:

- Improvement in asset quality via collections
- Achieving wider interest margin
- Robust economic growth in the domestic and international markets

#### Negative:

- Significant increases in leverage,
- Deterioration of non-performing loans,
- Decreasing investment flows in to the market and growing turmoil in the domestic and international markets
- Extension of supply shock and promulgation of demand loss via increasing unemployment

### 3. Sponsor Support and Stand-Alone Assessment

The Sponsor Support notes and risk assessments carried out reflect the financial and nonfinancial standings and expected supportive potential of the main controlling corporate shareholders, Mr. Emre Tezmen and Oğuz Tezmen. It is considered that the shareholders have the willingness and propensity to supply long term liquidity or equity to the Company as and when financial needs arise and the adequate experience to provide efficient operational support.

The Stand-Alone Note is formed regarding the Company's assets quality, equity structure, market shares, sustained growth rates, organizational structure, management practices and development of existing risks in the markets and financial environment. Therefore, JCR Eurasia Rating believes that the Company has enough experience and infrastructure to manage the risks individually as long as it maintains its existing customers, sustainability of profitability and effectiveness in the market positions.

After assessing all factors stated above, the Sponsor Support and Stand-Alone Notes of the Company have been affirmed at "3" and "B", respectively.

### 4. Company Profile

#### a) History & Activities

Originally founded in 2009, the Company's ownership changed in 2015. Currently Arena Faktoring operates through its headquarters located in Istanbul main office, and one additional office each in Istanbul and Ankara.

As a factoring services provider, Arena's main operations include revocable factoring services, guaranteeing, intermediating to collection and consulting by purchase, sale, assignment or acquisition of the customer receivables based on invoices or other certifying documents representing the domestic or international commercial sales of goods and services.

#### b) Organization & Employees

Arena has a function based senior management with marketing, operations, administrative affairs, loans, and credit intelligence c-level officers. Independent internal audit unit reports directly to the Board of Directors, while others are reporting to the Chief Executive Officer.

The Board Members of Arena Faktoring is composed of 4 members, including the CEO.

As of 2Q2020, the Company had an average workforce of 42.

**Board Members of Arena Faktoring**

Oğuz Tezmen	Chairman
Emre Tezmen	Vice Chairman
Gül Ayşe Çolak	Board Member
Fatma Nurcan Taşdelenler	Board Member/CEO

#### c) Shareholders, Subsidiaries & Affiliates

Tezmen Family has the principal shareholder status of the Company. The current capital structure is displayed below.

**Arena Faktoring A.Ş.**

Shareholders	Share %	Paid-in Capital (TRY)
Emre Tezmen	53.00	18,851,749
Oğuz Tezmen	37.00	12,950,000
Gül Ayşe Çolak	9.99	3,496,500
Fatma Nurcan Taşdelenler	0.01	1,750
Tolga Dıramalol	0.00	1
<b>Total</b>	<b>100.00</b>	<b>35,000,000</b>

#### d) Corporate Governance

Owing to the supervision and regulation of BRSA, the factoring sector in Turkey has a minimum set of disclosure requirements and corporate governance policies. Financial reporting is done in accordance with the BRSA template and is audited by independent audit companies. Therefore, the reporting standards, transparency and overall corporate governance quality of the factoring companies satisfy fundamental expectations.



The objective of BRSA's regulations are to maintain principles and procedures concerning the running of factoring market. Arena Faktoring has successfully adjusted its practices to align with BRSA regulations. Moreover, the Company implements procedures to ensure transparency considering its bond issuances in the Turkish bond market. Financial records and governance practices are in line with the international standards and are audited by independent entities. The audited financial statements are disclosed to public through the Company website.

Information technology systems are built and running to make daily factoring operations and are consistent with the size of the business, activities and level of complexity. Information security exercises are in place to ensure the secure storage of company and customer data.

Both senior management and board members have sufficient and appropriate professional and managerial experience depending on their position. The Board of Directors identifies the vision and mission of the Company and are published on the website.

The Board of Directors of Arena Faktoring consists of 4 members, including the chairman and vice chairman of Arena Faktoring and two board members.

The Company publishes an annual report, detailing its activities, important events and financials.

### e) The Company Strategies

Arena Faktoring aims to generate stable returns over a diversified receivable portfolio and matching funding structure. In this sense, the capital increase completed in 2018 helps fund the growth.

On the other hand, as the global economy has faced a massive shock with the global pandemic and severe actions to limit contagion, global trade will suffer heavily. Therefore, the Company plans to downscale to brace the adverse market conditions.

## 5. Sector Overview & Operational Environment

As of 2019, the total asset size and equity of the Turkish Factoring Sector amounted to TRY 37bn (USD 6.2bn) and

TRY 8.1bn (USD 1.4bn), respectively. There has been a growth in asset size by 7% in TRY but 6% decline in USD terms. The sector succeeded to increase its net profit by 5%, compared to year end 2018. Containing 56 companies of various sizes with total of 352 branches and 4,269 employees, total turnover in the sector was TRY 7.5bn and bottom line was TRY 1.4bn.

The factoring sector provides faster "guarantee", "financing", and "collection" services in comparison to the banking industry via the transfer of spot and forward receivables stemming from the sales of goods and services domestic and overseas. The sector maintained its efforts in the fields of corporate institutionalization and the extension of branch network and customer base throughout in the last years. However, a significant number of companies operating in the Turkish Factoring Sector do not possess the necessary infrastructure to provide collection services nor the capability to carry out export factoring activities. The certification of a significant portion of assigned receivables via post-dated checks has turned the business model of some factoring companies into one where numerous small amount checks are discounted partially or completely.

Factoring companies increasingly maintain the practice of transferring their non-performing (uncollectible) receivables to asset management companies in resemblance to the banking sector. The factoring sector exhibits a higher level of susceptibility to economic conjecture in comparison to the banking industry whilst changes in economic conjecture and regulatory pressures from the BRSA make management policies in the sector more difficult.

When the distribution of turnover in factoring services across different sectors is examined, it's observed that the manufacturing sector occupies the leading position with a share of 58.41% in 2016, 47.59% in 2017, 62.69% in 2018 and 64.04% in 2019. Below are the details provided by BRSA.

Factoring Sector	2016	2017	2018	2019
Manufacturing	21,419,970	20,235,112	21,446,629	12,764,579
Services	12,050,371	17,859,298	11,808,461	5,930,247
Agriculture	519,672	580,040	419,757	211,151
Financial Intermediation	1,103,661	1,835,966	1,026,003	615,435
Others	1,579,590	2,010,045	537,546	410,534

Total	36,673,264	42,520,461	34,212,393	19,931,946
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**Turnover Sectoral Distribution %**

Factoring Sector	2016	2017	2018	2019
Manufacturing	58.41%	47.59%	62.69%	64.04%
Services	32.86%	42.00%	31.52%	29.75%
Agriculture	1.42%	1.36%	1.23%	1.06%
Financial Intermediation	3.01%	4.32%	3.00%	3.09%
Others	4.31%	4.73%	1.57%	2.06%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

The nuclear fuel, petroleum, coal products industry is ranked first under the wider manufacturing sector, followed by extraction of energy generation mines, transportation activities and textiles and textile products industry while the wholesale and retail motor vehicles service sector are ranked first among the wider services sector followed by the construction sector.

Some factoring companies are subsidiaries or associates of banks. The fundamental characteristic of factoring companies which are bank subsidiaries is that they operate with a lower level of equity, higher level of external resources, wide capability to reach loans and customers, higher level of assets, take-over of risks belonging to lower profile firms, and low profitability. The fundamental characteristics of non-bank subsidiaries are that they operate with a lower level of assets, higher NPL level and interest margin, lower financing, and higher equity level and profitability and have a narrow credit-customer reaching capability.

The principles relating to the establishment and working conditions of factoring companies are regulated by the BRSA and is organized under the Financial Institutions Union. It remains a legal requirement that the sector management structures contain people that are educated and have sufficient professional experience, establish sound information systems, and identify and evaluate the risks they are exposed to. The implementation of a centralized invoice registry system in factoring transactions prevented the duplicate transfer of receivables arising from sale of goods and services and as such increased transparency. The establishment of the Central Invoice Recording System under the “Financial Institutions Union” and the improvement of conditions in the process of obtaining data from the information pool in the Risk Centre within the Turkish Banking Union increase the capability to reach more accurate intelligence by the sector,

contributing to the increase and preservation of the sector’s asset quality.

In accordance with the implemented reforms, the legal infrastructure of the sector has been improved from an effective supervision and governance perspective and the obligations for the establishment of risk measurement systems and internal control processes provided the sector with a positive acceleration with regards to the improvement in its corporate structure, improvement in the quality, standardization, and transparency of financial reporting, and the provision of competition equality. With regards to the sector’s effectiveness and standardization, it is anticipated that further progress from the current level of gains will be parallel to the expected performance from the “Financial Institutions Union” to an important extent.

The bond market in Turkey has provided factoring companies with the opportunity to diversify their funding resources since 2010. Non-Banking Financial Institutions exhibit the fundamental characteristic of obtaining funding externally and from the Turkish Banking System. However, their tendency to raise funding from capital markets via debt issuances continues to show an upward trend.

The Factoring Sector exhibits one of the highest levels of vulnerability to fluctuations in macroeconomic circumstances and instability. Management policies in the sector become more difficult mainly due to changes in economic conjuncture and regulatory pressures from the BRSA.

**THE KEY INDICATORS OF TURKISH FACTORING SECTOR**

(000,000)	2019	2018	2017	2016	2015
Asset Size-TRY	37,017	34,608	43,712	33,080	26,716
Asset Size-USD	6,232	6,553	11,589	9,400	9,155
Equity-TRY	8,137	6,770	5,781	5,082	4,627
P/L-TRY	1,374	1,306	929	670	377
ROAA %	4.87	4.37	3.00	2.84	1.86
ROAE %	23.41	27.29	21.23	17.47	10.94
NPL Ratio%	6.17	6.26	3.47	4.62	5.49
Equity / T. Sources	21.98	19.56	13.23	15.36	17.32

Taking into consideration the fact that the funds supplied by the factoring companies are largely provided by bank-subsidary factoring firms or those that contain banks within their groups, it becomes difficult for non-bank

subsidiary factoring companies and the sector to carry out their intermediary function.

As of 2019, the total asset size of factoring companies was TRY 37bn along with an equity size of TRY 8.1bn. In its 29-year history, the factoring sector has grown consistently, with the exception of 1994 and 2001 in which it contracted by 10.31% and 40.23%, respectively. The growth rate in the last year was 7%.

Factoring receivables occupy the highest share among sector's assets with a rate of 93% while loans occupy the highest share among resources at 69%. The sector meets a significant part of its resource needs through the short-term loans obtained from banks and is characterized by its inability to generate resource diversity.

In 2019, share of total debt issuances by factoring companies among all issuances were 3.6%. This figure exhibited a decline compared to previous year's share of 5%. Factoring companies have raised total debt amounted TRY 6.5bn in 2019 and this was below the amount of 2018 which was TRY 8.6bn. Debt issuances in Turkey are very sensitive to interest rates so that the fluctuations in interest rate market influence the capital market operations directly.

NPL ratios are reflected on the sector's balance sheets and declined from 5.49% in 2015 to 4.62% and 3.47% in 2016 and 2017, respectively. In 2018, due to the currency shock occurred on August and turmoil in economic activities, NPL ratios jumped to 6.26%. 2019 was a year in which the NPL ratio was almost flat, ended up with 6.17%. The further projections show a balanced ratio and a moderate decline in the following periods.

The performance of the factoring sector has maintained a faster upward acceleration in comparison to the banking sector since 2016. The ratios of "ROA (avg.)" and "ROE (avg.)" were 1.85% and 16.94% respectively in the banking sector whilst the same ratios in the factoring sector were 4.37% and 27.29%, respectively. When the ratio of equity to total assets is taken into consideration, the factoring sector has a higher level of equity. The "Equity/Total Assets" ratio of factoring sector was 19.56% in 2018 and 21.98% in 2019, indicating a better equity level.

The growth of the factoring sector throughout 2020 will be dependent on interest rate levels, regulations, the contribution of technological infrastructure works,

improvement in supplier finance, and success in the fields of export factoring works in addition to conjectural developments at the macro level. New regulations concerning "the reduction of transaction costs regarding the investment climate" and "the abolition of different applications among financial institutions" will contribute positively to the sector.

"The supply chain finance" method developed by the sector will support the trade cycle and increase the transaction volume of the factoring sector throughout 2020. This method will enable all financial institutions, purchasers, and suppliers to meet in the same electronic platform to be established within the Financial Institutions Union and suppliers will be able to finance transactions based on the credibility of the sides to which sales were undertaken without the need to wait for the maturity set by financial institutions.

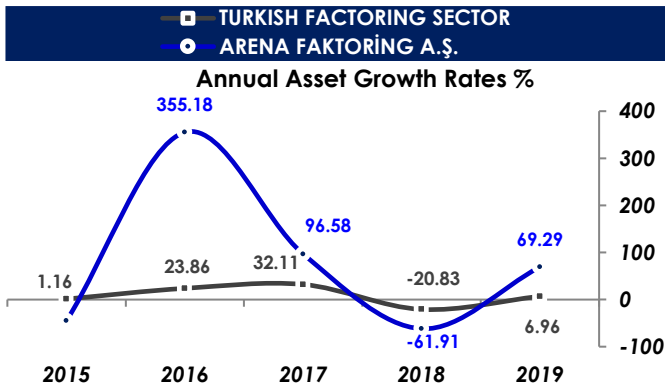
## 6. Financial Foundation

### a) Financial Indicators & Performance

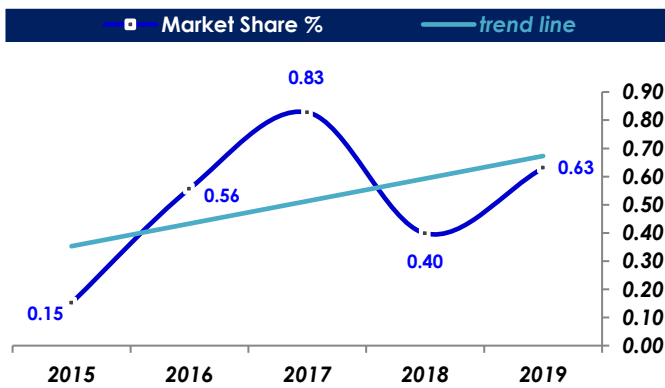
#### i. Indices relating to size

Bank-owned factoring companies dominates the Sector with respect to assets. As these firms typically operate with higher leverage and have easier access to financing through their parents, they can afford to charge tighter margins. On the other hand, the market is highly fragmented in addition to being skewed. As a means to bolster their financial resilience and encourage consolidation, BRSB increased the minimum capital requirement of factoring companies to TRY 50mn in 2020.

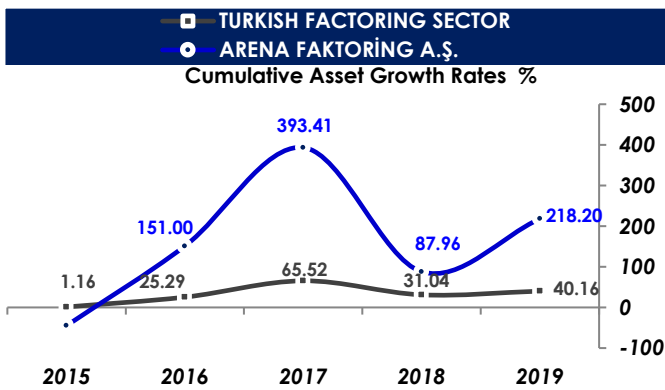
Throughout 2019, we have observed a stabilization of interest rates which have soared following August 2018 shock, exacerbated by political turmoil and sizable credit expansion in the form of Credit Guarantee Fund facilities (~TRY 220bn). Encouraged by plummeting imports and slowing consumer spending, CBRT has initiated a rate cutting campaign, reducing the funding rate from 24% (09/2018) to 10.75 as of February 2020. This trend allowed the factoring sector to expand their loan book, with increasing loan appetite and clarity with regards to medium term.



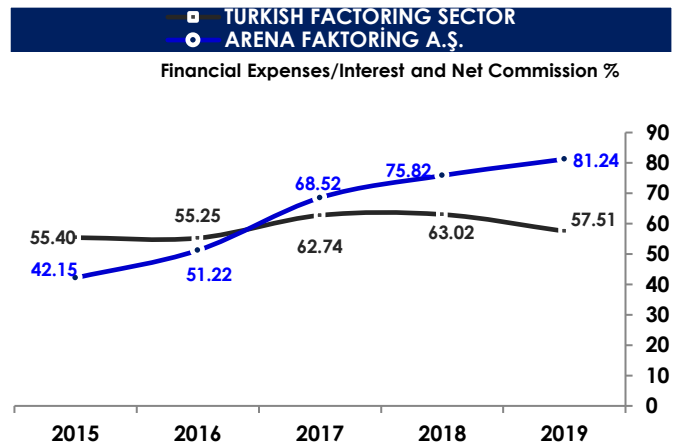
Sector's rebound had been moderate, though Arena's loan book increased faster compared to the Sector. However, the Company's asset base is still smaller than its level in 2017. As of 2H2020, Arena had an asset size of TRY 232.56mn (YE2019: 233.35mn)



Arena's asset CAGR was 26.05% between 2019 and 2014, as opposed to 6.99% for the Sector.

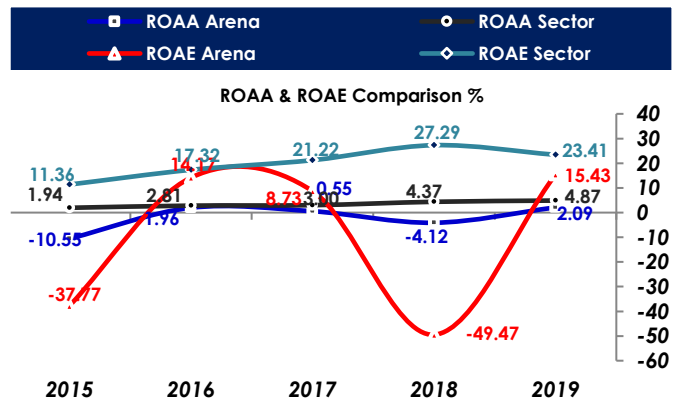


## ii. Indices relating to profitability



Arena's net interest margin compares lower to the Sector average and modest compared to the peers. On the other hand, we calculate NIM of 1.09% (Sector 8.06%) as of YE2019 as net interest income over average earning assets, hence excluding net fees and commissions. In 2019, the Company recorded net fee and commission revenues of TRY 5.85mn.

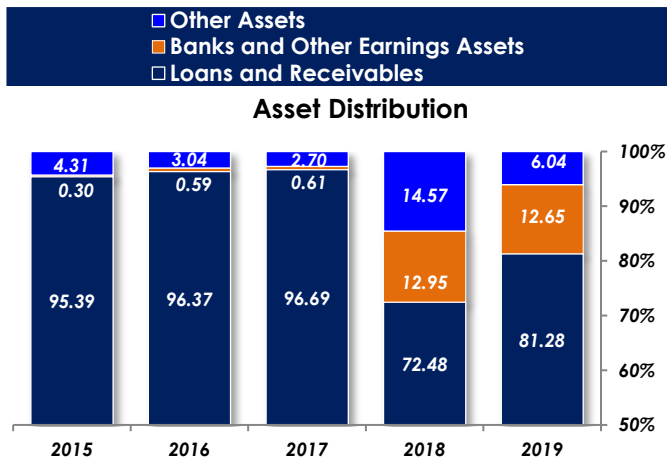
Similar to net interest margin, primary profitability indicators, ROAA and ROAE compared lower to the Sector averages, primarily due to higher than average financing costs.



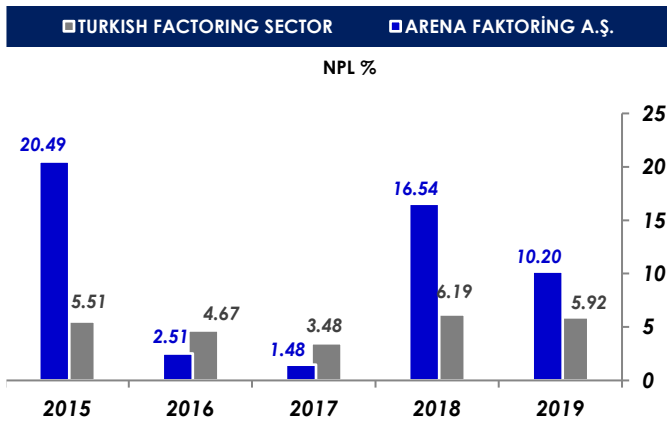
## b) Asset quality

Arena Faktoring maintains a notable liquidity cushion in the past 2 years, reducing the share of core business receivables. The balance is preserved in 2020 as well, with TRY 32.29mn of cash and TRY 8.24mn of liquid assets.



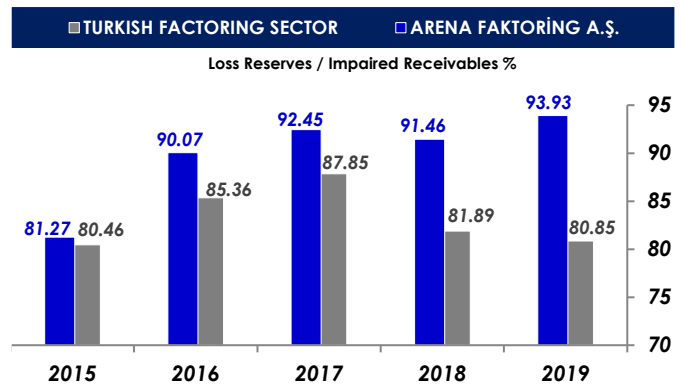


The overall NPL ratio of the company is 10.20% (YE2018: 16.54%), predominantly due to legacy impaired portfolio from the previous management. The NPL ratio of the current portfolio is XX%, in line with annual provision expenses of TRY 2.37mn.



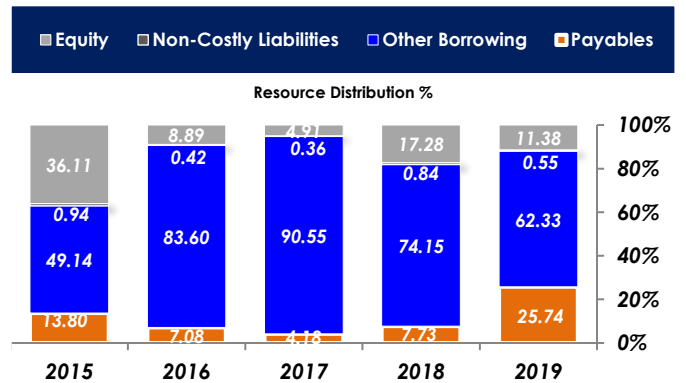
BRSA regulations currently require 20% provisions for 180 days delinquent loans instead of 90 days, supporting the reported asset quality.

Arena has a quite high provision coverage of impaired loans which we consider as a rating-positive factor.



### c) Funding & Adequacy of Capital

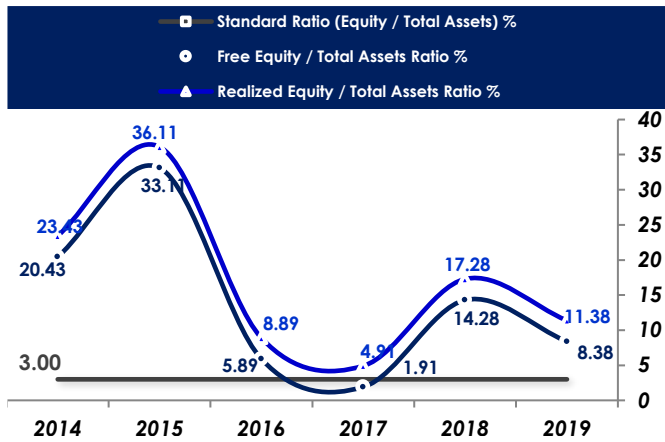
Factoring sector's primary financial indicators such as leverage are skewed due to high overall leverage use of bank-owned factoring companies with greater access to borrowing sources. Despite of this profile, most of the Sector's funding is significantly on the short-term, matching or slightly exceeding the loans underwritten by factoring companies.



Arena has TRY 35mn of paid-in capital, though the equity as of 2H2020 is TRY 28.50mn due to accumulated losses in the previous periods.

The Company uses a mix of factoring borrowings and short term loans to finance its loan book. As of YE2019, factoring payables and bank loans accounted for 24.9% and 39.67% of total assets, respectively.

The minimum equity to assets, standard ratio is still maintained as 3%. Arena's standard ratio is 11.38% as of FYE2019, staying below the sector average of 21.98%.



The average cost of the bank loans was the main drag on the Company's profitability. Looking forward based on 2H2020 figures, the funding cost has declined significantly, supporting the bottom-line via funding mix.

## 7. Risk Profile and Management

### a) Risk Management Organization & its Function – General Information

BRSA and CMB regulations demand certain corporate governance and risk management safeguards. The risk management framework is created and maintained at the Board of Directors level and executed at the senior management level. Underwriting and Internal Audit committees formed under the Board of Directors convene periodically to monitor the activities of the Company and finalize major lending decisions. Furthermore, the internal audit unit reporting to the Internal Audit Committee help the corporate risk management mandate at an operational level.

### b) Credit Risk

The Company has certain concentration limits per originator and borrower, though limits are flexible particularly for large-ticket loans at senior level discretion.

The average maturity of the factoring receivables is around 100 days, with TRY 520mn of turnover in 2019. The management periodically reviews the credit lines committed to borrowers are reviewed periodically and revises them as they seem necessary.

Sector concentration of the Company's receivables are dynamic across time, reflecting market conditions.

Sector Breakdown, 2H2020	
Food	18.65
Transport	11.45
Contracting	9.63
Trade	8.19
Durables	7.80
Textile	7.56
Prod.	5.15
Steel, Coal, Oil	5.00
Others	26.58

The legacy impaired receivable portfolio is fully provisioned for and the management plans to liquidate the collateral to cover the losses from the previous management.

Covid-19 pandemic is expected to engender headwinds in credit risk as cash cycle & supply chain disruptions reduce the debt service capacity of the companies.

### c) Market Risk

Arena Faktoring has as a long FX exposure in hard currencies and precious metals, valued at TRY equivalent of 29.63mn. FX liabilities are quite limited in the form of factoring borrowings.

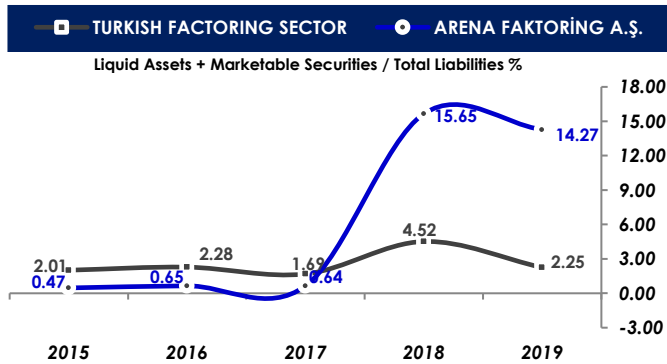
Interest rate risk exposure mainly stems from mismatch of the duration of borrowings and receivables, which the firm aims to limit. The debt instruments issued carry float rates.

### d) Liquidity Risk

Arena Faktoring is exposed to liquidity risk during the funding of its operations and manages its liquidity risk through regular monitoring of forecasted and actual cash flows, matching the maturity profiles of financial assets and liabilities and providing the continuation of adequate funding sources as well as maintaining the adequate credit lines.

The Company has credit lines from various major financial institutions, supporting liquidity management. As of August 17, 2020, credit lines of the Company were provided by 15 different financial institutions worth

TRY139mn. The Company used approx. 30% of the credit lines.



### e) Operational, Legal Regulatory & Other Risks

Primary operational risk factors mainly arise from the transactions prior to the loan underwriting and due diligence & document collection processes. To minimize the human errors and potential risk exposures, operational risks are managed with the implementation of automated processes, specialized software and internal control mechanisms.

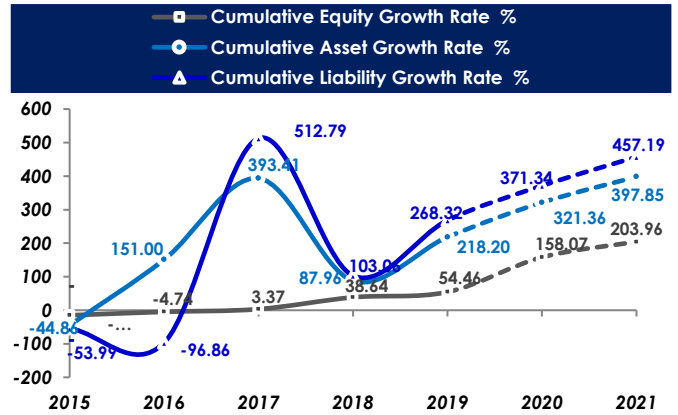
According to information received, the Company did not receive penal action by the regulatory and supervisory authorities, within the scope of legal risk. In addition to periodic reporting and transaction-based controls, the Company aims to minimize the operational processes so as to eliminate redundancies.

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### 8. Budget & Debt Issue

Arena Faktoring has a profit-oriented strategy for the upcoming years. The Company has projected 2020 year-end financial statements figures of TRY 2.8mn net profit and TRY 309mn total asset size.

Based on budgeted statements supplied by the Company, growth rates for the last five years' growth series are expected to result in cumulative asset growth rates of 321.36% and 397.85% for 2020 and 2021, respectively.



The Company's short-term borrowings from banks and bond issuances will remain as the fundamental sources of funding as in the previous years. Bonds issued to diversify funding sources amounted to TRY 52.00mn as of reporting date. In addition, Arena Faktoring plans to roll over its existing bond issuances.

ARENA FAKTORİNG A.Ş. BALANCE SHEET - ASSET  TRY (000)	(Year end)	(Year end)	(Year end)	(Year end)	(Year end)	(Year end)	(Year end)	(Year end)	As % of	As % of	As % of
	2019	2019	2019	2018	2018	2017	2017	2016	2019	2018	2017
	USD	TRY	TRY	TRY	TRY	TRY	TRY	TRY	Assets	Assets	Assets
	(Converted)	(Original)	(Average)	(Original)	(Average)	(Original)	(Average)	(Original)	(Original)	(Original)	(Original)
<b>A-TOTAL EARNING ASSETS (I+II+III)</b>	<b>36,899.28</b>	<b>219,189.12</b>	<b>168,472.48</b>	<b>117,755.83</b>	<b>234,907.55</b>	<b>352,059.28</b>	<b>265,264.32</b>	<b>178,469.36</b>	<b>93.93</b>	<b>85.43</b>	<b>97.30</b>
<b>I- LOANS AND RECEIVABLES (net)</b>	<b>31,930.50</b>	<b>189,673.57</b>	<b>144,790.16</b>	<b>99,906.74</b>	<b>224,876.37</b>	<b>349,846.00</b>	<b>263,611.82</b>	<b>177,377.64</b>	<b>81.28</b>	<b>72.48</b>	<b>96.69</b>
a) Factoring Receivables	31,711.84	188,374.66	143,308.64	98,242.63	223,778.93	349,315.24	263,073.68	176,832.13	80.73	71.27	96.54
b) Financing Loans	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a	n.a
c) Lease Receivables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a	n.a
d) Over Due Loans	3,601.74	21,395.07	20,435.68	19,476.28	12,360.83	5,245.38	4,903.36	4,561.33	9.17	14.13	1.45
e) Others	0.00	0.00	0.00	0.00	67.27	134.54	113.45	92.36	n.a	n.a	0.04
f) Receivable from Customer due to Brokerage Activities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a	n.a
g) Allowance for Loan and Receivables Losses (-)	-3,383.08	-20,096.16	-18,954.17	-17,812.17	-11,330.66	-4,849.15	-4,478.67	-4,108.18	-8.61	-12.92	-1.34
<b>II-BANKS AND OTHER EARNING ASSETS</b>	<b>4,968.78</b>	<b>29,515.55</b>	<b>23,682.32</b>	<b>17,849.09</b>	<b>10,031.18</b>	<b>2,213.28</b>	<b>1,652.50</b>	<b>1,091.72</b>	<b>12.65</b>	<b>12.95</b>	<b>0.61</b>
a) Banks	3,451.00	20,499.63	16,802.60	13,105.58	7,659.43	2,213.28	1,652.50	1,091.72	8.78	9.51	0.61
b) Other	1,517.78	9,015.92	6,879.72	4,743.51	2,371.75	0.00	0.00	0.00	3.86	3.44	n.a
c) Balance With Banks-Current Accounts	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a	n.a
<b>III-SECURITIES AT FAIR VALUE THROUGH P/L</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>
a) Treasury Bills and Government Bonds	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a	n.a
b) Other Investment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a	n.a
c) Repurchase Agreement	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a	n.a
<b>B- INVESTMENTS IN ASSOCIATES (net)+EQUITY SHARE</b>	<b>10.26</b>	<b>60.93</b>	<b>30.47</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.03</b>	<b>n.a</b>	<b>n.a</b>
a) Investments in Associates (net)	10.26	60.93	30.47	0.00	0.00	0.00	0.00	0.00	0.03	n.a	n.a
b) Equity Share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a	n.a
<b>C-NON-EARNING ASSETS</b>	<b>2,373.66</b>	<b>14,100.03</b>	<b>17,093.00</b>	<b>20,085.96</b>	<b>14,932.74</b>	<b>9,779.52</b>	<b>7,688.88</b>	<b>5,598.25</b>	<b>6.04</b>	<b>14.57</b>	<b>2.70</b>
a) Cash and Cash Equivalents	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a	n.a
b) Financial Assets at Fair Value through P/L	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a	n.a
c) Asset Held For Sale And Discontinued Operations (net)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a	n.a
d) Other	2,373.66	14,100.03	17,093.00	20,085.96	14,932.74	9,779.52	7,688.88	5,598.25	6.04	14.57	2.70
- Intangible Assets	32.83	195.00	202.80	210.60	217.02	223.44	233.83	244.23	0.08	0.15	0.06
- Property and Equipment	1,466.65	8,712.18	7,919.44	7,126.70	7,251.82	7,376.95	5,766.98	4,157.02	3.73	5.17	2.04
- Deferred Tax	173.97	1,033.44	1,605.34	2,177.24	1,496.09	814.93	658.69	502.44	0.44	1.58	0.23
- Other	700.21	4,159.42	7,365.42	10,571.41	5,967.81	1,364.20	1,029.39	694.57	1.78	7.67	0.38
<b>TOTAL ASSETS</b>	<b>39,283.20</b>	<b>233,350.09</b>	<b>185,595.94</b>	<b>137,841.79</b>	<b>249,840.29</b>	<b>361,838.79</b>	<b>272,953.20</b>	<b>184,067.61</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>



ARENA FAKTORİNG A.Ş. BALANCE SHEET-LIABILITIES+EQUITY TRY (000)	(Year end)	(Year end)	(Year end)	(Year end)	(Year end)	(Year end)	(Year end)	(Year end)	As % of	As % of	As % of
	2019	2019	2019	2018	2018	2017	2017	2016	2019	2018	2017
	USD (Converted)	TRY (Original)	TRY (Average)	TRY (Original)	TRY (Average)	TRY (Original)	TRY (Average)	TRY (Original)	Assets (Original)	Assets (Original)	Assets (Original)
<b>C- COST BEARING RESOURCES (I+II)</b>	<b>34,599.05</b>	<b>205,525.29</b>	<b>159,193.82</b>	<b>112,862.35</b>	<b>227,809.33</b>	<b>342,756.30</b>	<b>254,838.65</b>	<b>166,920.99</b>	<b>88.08</b>	<b>81.88</b>	<b>94.73</b>
<b>I-PAYABLES</b>	<b>10,112.79</b>	<b>60,072.01</b>	<b>35,361.89</b>	<b>10,651.78</b>	<b>12,885.95</b>	<b>15,120.11</b>	<b>14,076.94</b>	<b>13,033.77</b>	<b>25.74</b>	<b>7.73</b>	<b>4.18</b>
a) Factoring Payables	9,780.71	58,099.39	34,375.59	10,651.78	12,823.68	14,995.58	13,696.40	12,397.21	24.90	7.73	4.14
b) Lease Payables	332.08	1,972.62	986.31	0.00	0.00	0.00	0.00	0.00	0.85	n.a	n.a
c) Other	0.00	0.00	0.00	0.00	62.26	124.53	380.54	636.55	n.a	n.a	0.03
<b>II-BORROWING FUNDING LOANS &amp; OTHER</b>	<b>24,486.26</b>	<b>145,453.29</b>	<b>123,831.93</b>	<b>102,210.57</b>	<b>214,923.38</b>	<b>327,636.19</b>	<b>240,761.71</b>	<b>153,887.23</b>	<b>62.33</b>	<b>74.15</b>	<b>90.55</b>
a) Fund Borrowed-Short Term	15,585.43	92,580.56	83,272.65	73,964.74	185,363.21	296,761.67	209,974.55	123,187.44	39.67	53.66	82.01
b) Fund Borrowed-Long Term	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a	n.a
c) Marketable Securities For Issued (net)	8,900.83	52,872.73	40,559.28	28,245.83	29,560.17	30,874.52	30,787.16	30,699.79	22.66	20.49	8.53
d) Securities Sold Under Repurchase Agreements	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a	n.a
e) Subordinated Loans	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a	n.a
<b>D- NON COST BEARING RESOURCES</b>	<b>215.30</b>	<b>1,278.92</b>	<b>1,216.22</b>	<b>1,153.52</b>	<b>1,235.86</b>	<b>1,318.21</b>	<b>1,046.54</b>	<b>774.87</b>	<b>0.55</b>	<b>0.84</b>	<b>0.36</b>
a) Provisions	58.48	347.36	271.72	196.08	171.58	147.08	137.35	127.61	0.15	0.14	0.04
b) Current & Deferred Tax Liabilities	0.00	0.00	0.00	0.00	165.73	331.47	363.46	395.45	n.a	n.a	0.09
c) Trading Liabilities (Derivatives)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a	n.a
d) Other Liabilities	156.82	931.56	944.50	957.44	898.55	839.66	545.74	251.81	0.40	0.69	0.23
<b>E- TOTAL LIABILITIES</b>	<b>34,814.35</b>	<b>206,804.21</b>	<b>160,410.04</b>	<b>114,015.87</b>	<b>229,045.19</b>	<b>344,074.51</b>	<b>255,885.19</b>	<b>167,695.87</b>	<b>88.62</b>	<b>82.72</b>	<b>95.09</b>
<b>F- MINORITY INTEREST</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>
<b>F- EQUITY</b>	<b>4,468.85</b>	<b>26,545.88</b>	<b>25,185.90</b>	<b>23,825.92</b>	<b>20,795.10</b>	<b>17,764.28</b>	<b>17,068.01</b>	<b>16,371.74</b>	<b>11.38</b>	<b>17.28</b>	<b>4.91</b>
a) Prior Year's Equity	4,010.96	23,825.92	20,795.10	17,764.28	17,068.01	16,371.74	15,487.54	14,603.33	10.21	12.89	4.52
b) Equity (Internal & external resources added during the year)	-2.94	-17.45	7,486.41	14,990.28	7,489.15	-11.98	-3.96	4.07	-0.01	10.87	-0.00
c) Minority Interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a	n.a
d) Profit & Loss	460.83	2,737.41	-3,095.61	-8,928.64	-3,762.06	1,404.52	1,584.43	1,764.35	1.17	-6.48	0.39
<b>TOTAL LIABILITY+EQUITY</b>	<b>39,283.20</b>	<b>233,350.09</b>	<b>185,595.94</b>	<b>137,841.79</b>	<b>249,840.29</b>	<b>361,838.79</b>	<b>272,953.20</b>	<b>184,067.61</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
<b>USD 1 = TRY</b>		<b>5.9402</b>		<b>5.2609</b>		<b>3.7719</b>		<b>3.5318</b>			

<b>ARENA FAKTORİNG A.Ş.</b>			
<b>INCOME STATEMENT</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>TRY (000)</b>			
<b>Net Interest Income</b>	<b>1,838.28</b>	<b>5,789.16</b>	<b>5,952.92</b>
A) Interest income	35,125.52	36,437.89	26,514.03
a) Factoring Interest Income	35,125.52	36,437.89	26,514.03
b) Financing Loans Interest Income	0.00	0.00	0.00
c) Lease Income	0.00	0.00	0.00
d) Banks	0.00	0.00	0.00
B) Financial Expense	33,287.24	30,648.73	20,561.11
<b>Net Fee and Commission Income</b>	<b>5,846.91</b>	<b>3,982.72</b>	<b>3,493.95</b>
a) Fee and Commission Income	6,111.59	4,340.23	3,678.32
b) Fee and Commission Expense	264.68	357.50	184.37
<b>Total Operating Income</b>	<b>7,895.64</b>	<b>329.68</b>	<b>240.90</b>
Interest Income from Other Operating Field	0.00	108.51	13.61
Foreign Exchange Gain or Loss (net) (+/-)	10,800.26	168.63	62.08
Gross Profit from Retail Business	0.00	0.00	0.00
Gains or Loss on Derivative Instruments (+/-)	-2,904.62	0.00	0.00
Income on Sale of Equity Participations and Consolidated Affiliates	0.00	0.00	0.00
Gains from Investment Securities (net)	0.00	0.00	0.00
Other Operating Income	0.00	52.54	165.21
Taxes other than Income Tax	0.00	0.00	0.00
Dividend	0.00	0.00	0.00
<b>Provisions</b>	<b>2,368.56</b>	<b>12,990.61</b>	<b>740.79</b>
Provision for Impairment of Loan and Trade Receivables	2,368.56	12,990.61	857.12
Other Provision	0.00	0.00	-116.33
<b>Total Operating Expense</b>	<b>9,326.14</b>	<b>7,399.15</b>	<b>7,457.35</b>
Salaries and Employee Benefits	5,902.71	4,572.86	4,798.53
Depreciation and Amortization	0.00	0.00	0.00
Other Expenses	3,423.44	2,826.30	2,658.82
<b>Profit from Operating Activities before Income Tax</b>	<b>3,886.13</b>	<b>-10,288.21</b>	<b>1,489.63</b>
Income Tax – Current	1,148.72	0.00	0.00
Income Tax – Deferred	0.00	-1,359.57	85.11
<b>Net Profit for the Period</b>	<b>2,737.41</b>	<b>-8,928.64</b>	<b>1,404.52</b>
<b>Total Income</b>	<b>18,485.45</b>	<b>10,101.55</b>	<b>9,687.77</b>
<b>Total Expense</b>	<b>12,230.76</b>	<b>7,399.15</b>	<b>7,457.35</b>
<b>Provision</b>	<b>2,368.56</b>	<b>12,990.61</b>	<b>740.79</b>
<b>Pretax Profit</b>	<b>3,886.13</b>	<b>-10,288.21</b>	<b>1,489.63</b>

ARENA FAKTORİNG A.Ş. FINANCIAL RATIO %	2019	2018	2017
<b>I. PROFITABILITY &amp; PERFORMANCE</b>			
1. ROA - Pretax Profit / Total Assets (avg.)	2.09	-4.12	0.55
2. ROE - Pretax Profit / Equity (avg.)	15.43	-49.47	8.73
3. Total Income / Equity (avg.)	73.40	48.58	56.76
4. Total income / Total Assets (avg.)	9.96	4.04	3.55
5. Provisions / Total Income	12.81	128.60	7.65
6. Total Expense / Total Resources (avg.)	7.62	3.23	2.91
7. Net Profit for the Period / Total Assets (avg.)	1.47	-3.57	0.51
8. Total Income / Total Expenses	151.14	136.52	129.91
9. Non Cost Bearing Liabilities + Equity - Non Earning Assets / Assets	5.88	3.55	2.57
10. Non Cost Bearing Liabilities - Non Earning Assets / Assets	-5.49	-13.73	-2.34
11. Total Operating Expenses / Total Income	50.45	73.25	76.98
12. Interest Margin	1.09	2.46	2.24
13. Operating ROAA = Operating Net Incomes / Assets (avg.)	20.03	8.15	8.08
14. Operating ROAE = Operating Net Incomes / Equity Capital (avg.)	147.60	97.91	129.19
15. Interest Coverage – EBIT / Interest Expenses	111.67	66.43	107.24
16. Net Profit Margin	14.81	-88.39	14.50
17. Gross Profit Margin	21.02	-101.85	15.38
18. Market Share	0.63	0.40	0.83
19. Growth Rate	69.29	-61.91	96.58
<b>II. CAPITAL ADEQUACY (year end)</b>			
1. Equity Generation / Prior Year's Equity	-0.07	84.38	-0.07
2. Internal Equity Generation / Previous Year's Equity	11.49	-50.26	8.58
3. Equity / Total Assets (Standard Ratio)	11.38	17.28	4.91
4. Equity / Total Liabilities	12.84	20.90	5.16
5. Free Equity / Total Receivables Ratio	9.27	16.50	2.91
6. Tangible Assets / Total Assets	3.73	5.17	2.04
7. Intangible Assets / Total Assets	0.08	0.15	0.06
8. Equity / Total Guarantees and Commitments + Equity	100.00	100.00	100.00
<b>III. LIQUIDITY (year end)</b>			
1. Liquid Assets + Marketable Securities / Total Assets	12.65	12.95	0.61
2. Liquid Assets + Marketable Securities / Total Liabilities	14.27	15.65	0.64
3. Short Term Borrowings / Total Assets	65.42	61.39	86.19
4. Net Interest and Commission / Total Assets	3.29	7.09	2.61
5. Liquid Assets + Marketable Securities / Equity	111.19	74.91	12.46
<b>IV. ASSET QUALITY</b>			
1. Loan and Receivable's Loss Provisions / Total Loans and Receivables	9.58	15.13	1.37
2. Total Provisions / Profit Before Provision and Tax	37.87	480.71	33.21
3. Impaired Receivables / Gross Receivables	10.20	16.54	1.48
4. Impaired Receivables / Equity	80.60	81.74	29.53
5. Loss Reserves for Receivables / Impaired Receivables	93.93	91.46	92.45
6. Collaterals / Total Receivables	2,808.48	3,265.83	726.68
7. Total FX Position / Total Assets	8.21	0.03	0.01
8. Total FX Position / Equity	72.21	0.19	0.14
9. Assets / Total Guarantees and Commitments + Assets	100.00	100.00	100.00

Previous Rating Results Issued by JCR-ER

		12-Jul-18		25-Jul-19		
		Long Term	Short Term	Long Term	Short Term	
International	Foreign Currency	BBB-	A-3	BBB-	A-3	
	Local Currency	BBB-	A-3	BBB-	A-3	
	Outlook	FC	Stable	Stable	Negative	Negative
		LC	Stable	Stable	Negative	Negative
National	Local Rating	BBB- (Trk)	A-3 (Trk)	BBB- (Trk)	A-3 (Trk)	
	Outlook	Stable	Stable	Stable	Stable	
	Issue Rating	BBB- (Trk)	A-3 (Trk)	BBB- (Trk)	A-3 (Trk)	
Sponsor Support		3	-	3	-	
Stand-Alone		B	-	B	-	
Sovereign*	Foreign Currency	BBB-	-	BBB-	-	
	Local Currency	BBB-	-	BBB-	-	
	Outlook	FC	Stable	-	Negative	
		LC	Stable	-	Negative	
		Affirmed by JCR, on November 10, 2017		Affirmed by JCR on November 27, 2018		
Analyst(s)		Zeki Metin Çoktan Ersin Kılıçkap		Zeki Metin Çoktan Ersin Kılıçkap		