Corporate Credit Rating

☐New ☒Update

Sector: Factoring
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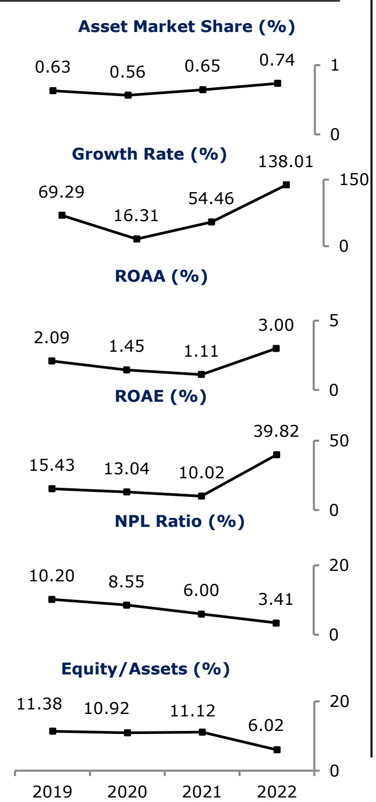
RATINGS		Long Term	Short Term
ICRs (Issuer Credit Rating Profile)	National ICR	BBB+ (tr)	J2 (tr)
	National ICR Outlooks	Stable	Stable
	International FC ICR	BB	-
	International FC ICR Outlooks	Negative	-
	International LC ICR	BB	-
	International LC ICR Outlooks	Negative	-
ISRs (Issue Specific Rating Profile)	National ISR	BBB+(tr) (Stable)	J2(tr) (Stable)
	International FC ISR	-	-
	International LC ISR	-	-
Sovereign *	Foreign Currency	BB (Negative)	-
	Local Currency	BB (Negative)	-

** Assigned by JCR on August 18, 2022*



Arena Finans Faktoring A.Ş.

JCR Eurasia Rating has evaluated **"Arena Finans Faktoring A.Ş."** in the investment level category, revised the Long-Term National Issuer Credit Rating from **'BBB (tr)'** to **'BBB+ (tr)'** and affirmed the Short-Term National Issuer Credit Rating at **'J2 (tr)'** with **'Stable'** outlooks. On the other hand, the Local Currency Issuer Credit Ratings and outlooks were determined as **'BB/Negative'**, in line with the international ratings and outlooks of Republic of Türkiye.

Arena Finans Faktoring A.Ş. (hereinafter referred to as '**Arena Finans Faktoring**', or **'the Company'**) was established in 2009 and acquired by the current shareholders in 2015. The Company continues its operations through two offices in İstanbul, Ankara and Bodrum, in addition to the headquarter in İstanbul. As a factoring services provider, Arena Finans Factoring's 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. The sector is supervised by Banking Regulation and Supervision Agency of Türkiye (BRSA) since 2006 and the market players are members of Associations of Financial Institutions, an umbrella organization for factoring, leasing and consumer finance companies.

Tezmen Family is the primary shareholder of the Company as of June 30, 2023. The Company maintains its operations by average workforce of 56 employees in FY2022 (FY2021: 50; FY2020: 46).

Key rating drivers, as strengths and constraints, are provided below.

Strengths	Constraints
• Sustainability of income and profit generation capacity, • Diversified borrowing profile through debt security issuances providing financial flexibility, • Reasonable collateral coverage in a certain extent diminishing the credit risk, • Sustainable refactoring facility contributing volume growth, • Experienced management team and well-organized risk management infrastructure.	• Above sector averages NPL ratio despite decreasing trend over the reporting period, • Despite improvement, ongoing profitability ratios standing below the sector averages, • Capital adequacy ratios standing below sector average despite being compatible with the requirements, • Short-term borrowing profile in parallel with the sector, • High competition in the sector dominated by bank-owned factoring companies with wide branch network and lower borrowing costs, • Global economic growth slows down evidenced by commodity prices and trade figures on the back of rapid monetary tightening, whereas domestic restrictive financial conditions limit access to finance.

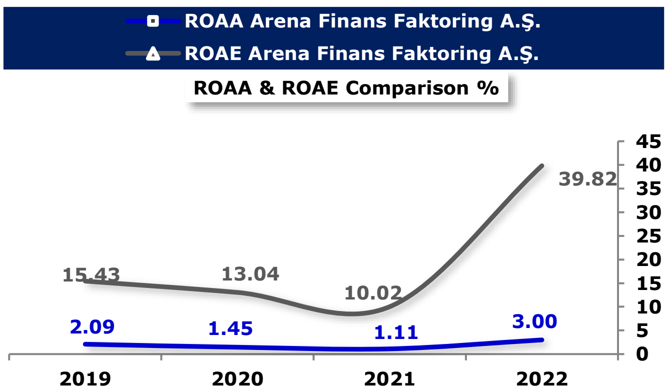
Considering the aforementioned factors, the Company's the Long-Term National Issuer Credit Rating has been revised from **'BBB (tr)'** to **'BBB+ (tr)'**. The Company's revenue generation capacity, asset quality, capital adequacy, risk management infrastructure supported by internal control systems, high provision level, experienced management team together with the general outlook of the sector have been evaluated as important indicators for the stability of the ratings and the outlooks for Long and Short-Term National Issuer Credit Ratings are determined as **'Stable'**. Arena Finans Faktoring's turnover and asset development, attainability of the Company's budgeted projections, net interest margin trend, market share, profitability indicators, capitalization level, funding structure, the growth in the number of customers in the competitive market, improvements in receivable portfolio granularity to reduce the concentration exposure to be monitored by JCR Eurasia Rating.

1. Rating Rationale

Sustainability of Income and Profit Generation Capacity

As per the financials, Arena Finans Faktoring's achieved a net profit of TRY 13.76mn in FY2022, exhibiting an improvement of 531.10% compared to the previous year's TRY 2.18mn.

Additionally, the Company's core profitability indicators of ROaAs and ROaEs increased notably in FY2022 which are shown in the below graph:



The return on average assets (ROaA) ratio of Arena Finans Faktoring increased to 3.00% in FY2022 from 1.11% in FY2021 and the return on average equity (ROaE) ratio of Arena Finans Faktoring increased to 39.82% in FY2022 from 10.02% in FY2021.

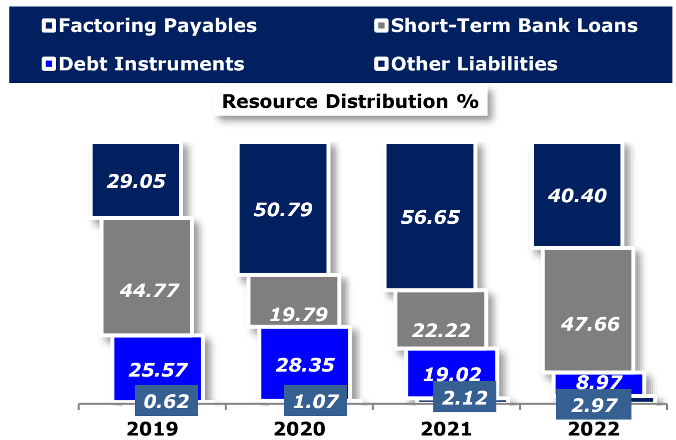
Parallel to 152.55% increase in total factoring receivables as of FYE2022 compared to the previous year-end, interest income generation from the Company's factoring receivables significantly increased by 199.35% YoY in FY2022.

In FY2022, increasing factoring interest income, robust increases in service (net fees and commission) and relatively mild increase in operating expenses were the main factors of 455.76% increase in pre-tax profit generation despite accompanying increases in financial expenses and provisions.

Diversified Borrowing Profile Through Debt Security Issuances Providing Financial Flexibility

The funding structure of Arena Finans Faktoring is mainly comprised of factoring payables, short-term bank loans and bond issuances in addition to the equity base corresponding to 6.02% of total assets as of FYE2022.

The Company's resource distribution in the last four-year period is provided below:



Arena Finans Faktoring benefits from opportunities to reduce funding costs through utilizing capital market instruments. The weighted average effective interest rates applied to the financial instruments are as follows;

Interest Rates (%) Weighted Average	2019	2020	2021	2022
Assets				
Factoring Receivables	23.14	26.36	28.80	41.87
Liabilities				
Factoring Payables	15.50	20.09	24.16	36.61
Short Term Bank Loans	14.60	15.83	25.36	15.53
Debt Instruments	17.10	18.47	23.34	30.01

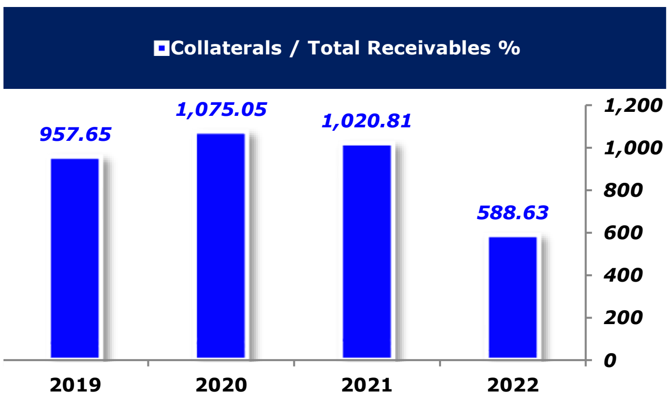
Issued debt securities made up 8.97% of total liabilities as of FYE2022. Arena Finans Faktoring uses debt instruments with a relatively long tenor of 1-2 years according to the average of the sector.

Considering the average maturity of the factoring receivables around 3 6 months, the ability to raise relatively long-term funding provides financial flexibility for the Company.

The Company plans to continue bond issuances to diversify funding resources and reduce borrowing from financial institutions in the following periods provided that the market conditions do not deteriorate materially.

Reasonable Collateral Coverage in a Certain Extent Diminishing the Credit Risk

The Company maintained its reasonable collateral coverage in a certain extent. As of FYE2022, the ratio of collaterals excluding Personal Guarantees to total receivables decreased by 42.34% and reached the level of 588.63%. Despite the collateral coverage decrease, the Company has relatively high-level collateral coverage.



The collateral level enhanced with pledges and collection and guarantee checks other than the ordinary contract warranty and the checks subject to factoring transactions also continued to contribute to asset quality.

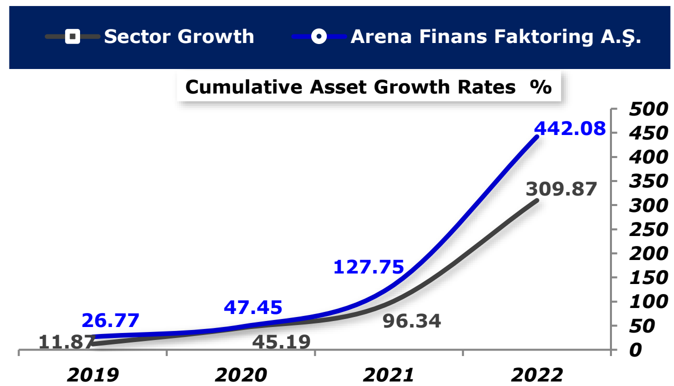
Since the receivables are the most important part of total assets, the quality of the receivables is examined in order to evaluate the asset quality of the Company through good collateralization level.

Sustainable Refactoring Facility Contributing Volume Growth

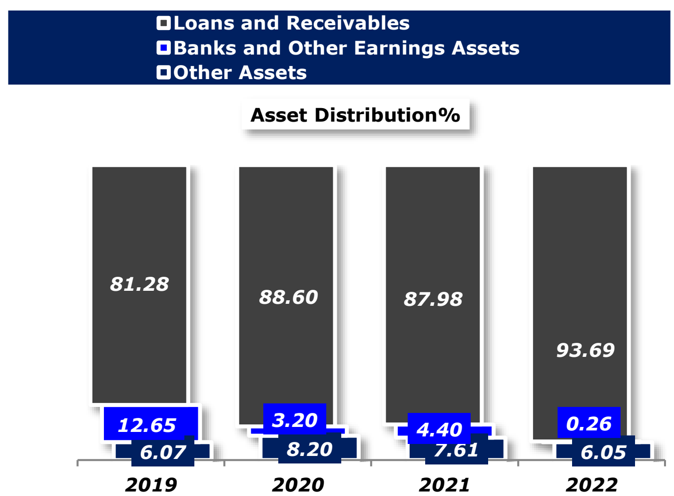
Depending on its business model, the Company use refactoring facility which contributes further volume growth. Factoring payables arise from the assignment of cheques/invoices etc. received from customers to other factoring companies through refactoring transactions.

On the other hand, the responsibility of the Company that made the assignment continues. As of December 31, 2022, and December 31, 2021, all factoring receivables in TL are revocable.

Besides debt security issuances and bank loans, refactoring facility provides the Company enhance its earning assets portfolio due to gaining cost advantages and maturity-matched funding. Increase in the earning assets accordingly contributes asset growth.



The Company's assets have been heavily marked with the large weight of earning assets over the reporting period in line with the sectorial dynamics, contributes to the Company's revenue generation capacity.



The high share of earning assets among total assets indicates the predictability of factoring incomes to increase in the following periods.

Experienced Management Team and Well-Organized Risk Management Infrastructure

Arena Finans Faktoring's primary shareholder is Tezmen Family, who have significant experience, network and investments in the finance sector over 20 years. The Board of Directors (BoD) of the Company consists of 4 members, including the chairman and vice chairman of Arena Finans Faktoring and two board members including Chief Executive Officer (CEO). The Board of Directors identifies the vision and mission of the Company which are published on the Company website.

The Company 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 BoD, while others are reporting to the CEO. Both senior management and board members have sufficient and appropriate professional and managerial experience regarding to their position.

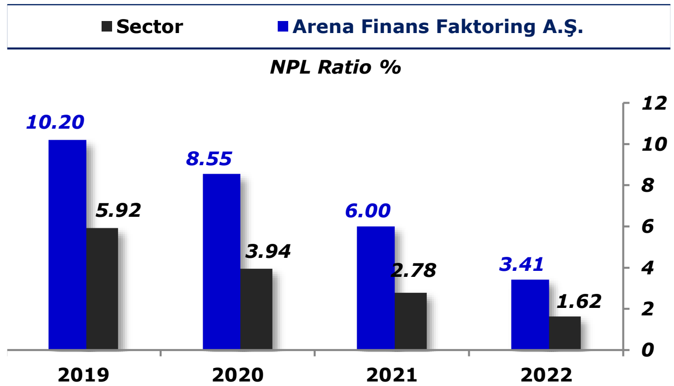
The significant sector experience and network of the senior executives are reflected to the Company operations through their cooperation in daily operations. During the review period, employee turnover rate of the Company was low and no material changes occurred in senior management permanency, ensuring the successful continuity of Company operations.

Above Sector Averages NPL Ratio Despite Decreasing Trend Over the Reporting Period

The non-performing loans (NPL) ratio is considered the main indicator of asset quality within the financial sector.

The NPL ratio of the Company reached to 16.54% in FYE2018 due to the fact that the doubtful receivables in the portfolio, which was taken over with the acquisition of the Company in FY2015, was registered as non-performing receivables as of FYE2018.

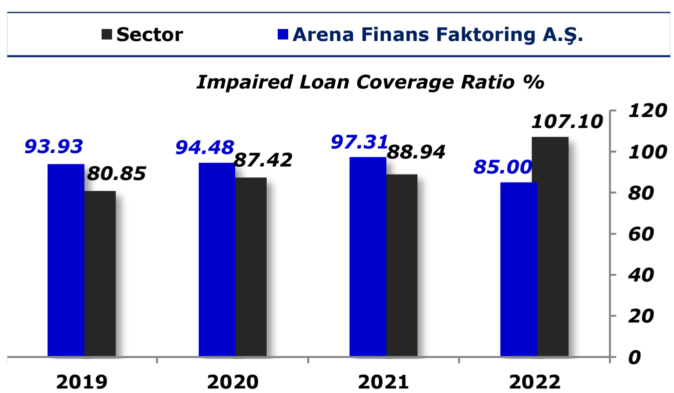
With the effective performance of the Company management, the NPL ratio of the Company decreased to 10.20% 8.55%, 6.00% and 3.41% in FYE2019, FYE2020, FYE2021 and FYE2022 respectively.



The Company's gross overdue receivables increased from TRY 23.51mn to TRY 32.88mn as of FYE2022 (TRY 16.20mn of them are pre-2015 overdue receivables) as the total receivables increased from TRY 368.21mn to TRY 929.92mn and allowances increased from TRY 22.88mn to TRY 27.95mn in the same time period.

As a result of these changes, the NPL ratio of the Company decreased from 6.00% to 3.41% as of FYE2022. In the same time, the sector average of NPL decreased from 2.78% to 1.62%. In addition, the NPL ratio of the Company decreased from 3.41% to 3.06% as of 1H2023. In the same time, the sector average of NPL decreased from 1.62% to 1.53%.

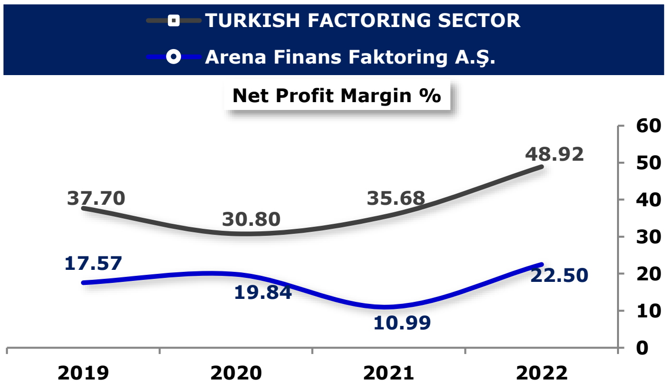
Additionally, the Company softened the pressure on NPL through effective internal control mechanisms, risk management infrastructure supported by internal control systems, experienced management team, cautious lending practices and high provision level.



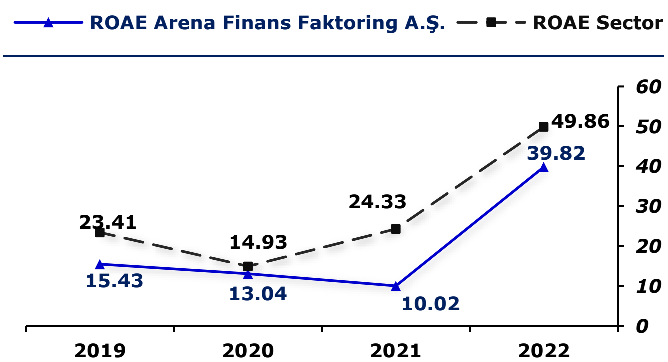
As shown in the above graph, the Company's impaired loan coverage ratio exceeds the sector averages until FYE2022 indicating high provision level. The Company reached below the sector averages in FYE2022.

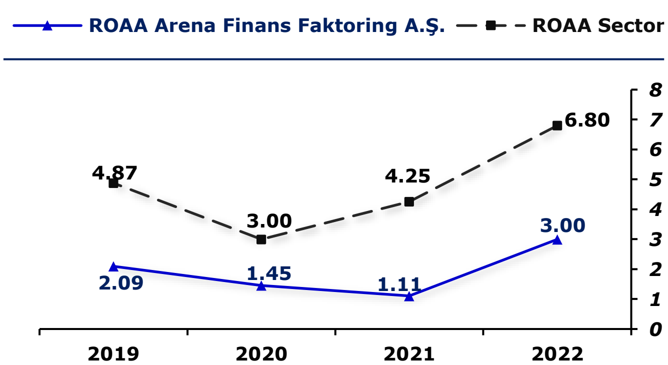
Despite Improvement, Ongoing Profitability Ratios Standing Below the Sector Averages

The Company's net profit margin is below the sector averages over the years and the ratio has shown a fluctuating trend during the last four-year period.

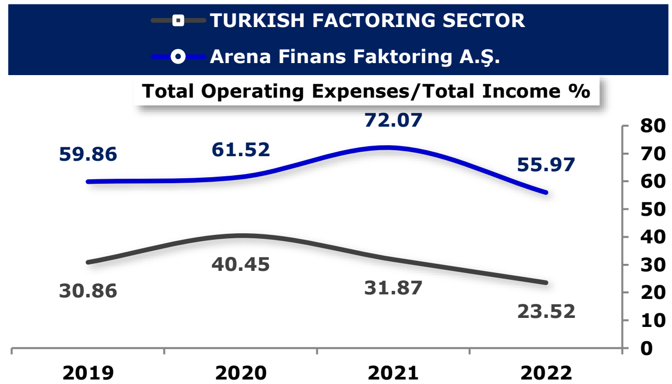


The main profitability indicators, ROAA and ROAE of the Company remained well below the sector averages over the years.





Although the Company's total operating expenses are in moderate levels with respect to the Company's scale and operations, despite decrease, total operating expenses to total income ratio has remained above the sector averages during the reporting period and constraining its profit generation capacity.

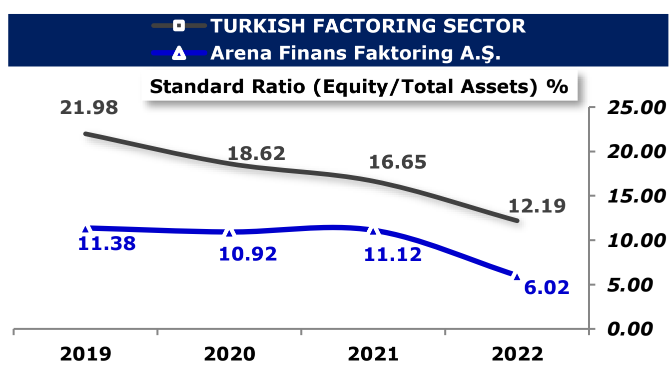


Due to the fact that the bank-owned companies can capitalize on the widespread branch network of the parent institutions, the Company's efficiency is evaluated as fair. Nevertheless, potential improvements in this core operating item could support overall profitability considerably.

Capital Adequacy Ratios Standing Below Sector Average Despite Being Compatible with the Requirements

Banking Regulation and Supervision Agency of Türkiye (BRSA) regulations require factoring companies operating in Türkiye to have an equity to total assets ratio (standard ratio) of 3%.

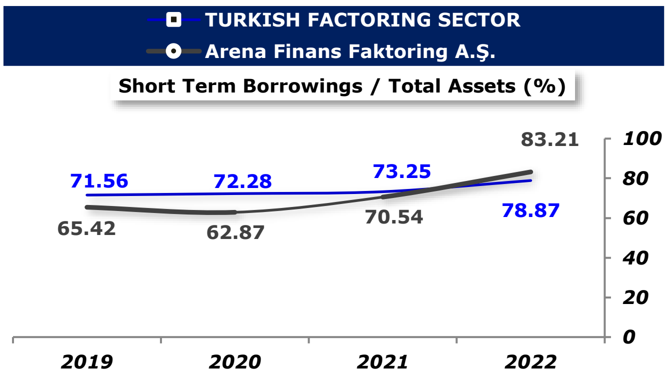
Despite being compatible with the requirements, the Company's standard ratio of 6.02% remains below the sector average of 12.19% as of FYE2022.



As of FYE2022, Arena Finans Faktoring has TRY 50mn of paid-in capital, though the equity level is TRY 60.04mn due to profit. According to the Company management, the paid-in capital amount is planned to be increased to TRY 100mn in FY2023.

Short-Term Borrowing Profile in Parallel with the Sector

The fact that the Turkish Factoring Sector has had short-term borrowing structure as a major characteristic thereof holds true for Arena Finans Faktoring as well. The short-term weighted receivables structure together with maturity matching efforts within the concern of interest rate exposure resulted in a short-term weighted borrowing structure.



High Competition in the Sector Dominated by Bank-Owned Factoring Companies with Wide Branch Network and Lower Borrowing Costs

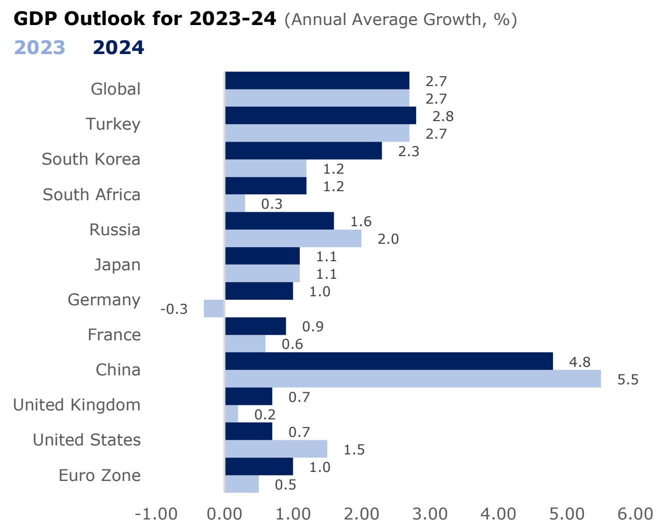
As of FYE2022, 49 companies operated in the factoring sector according to the BRSA data. The domination of bank-affiliated factoring companies with advantages in funding resources and costs, wide ranging branch network, access to clients, and strong parental support continued in 2022 as well.

Accordingly, Arena Finans Faktoring operates in a sector with intense competition that pressure profitability and asset growth opportunities and thus the Company has inherent disadvantages compared with bank-owned factoring companies.

Global Economic Growth Slows Down Evidenced by Commodity Prices and Trade Figures on the Back of Rapid Monetary Tightening, Whereas Domestic Restrictive Financial Conditions Limit Access to Finance

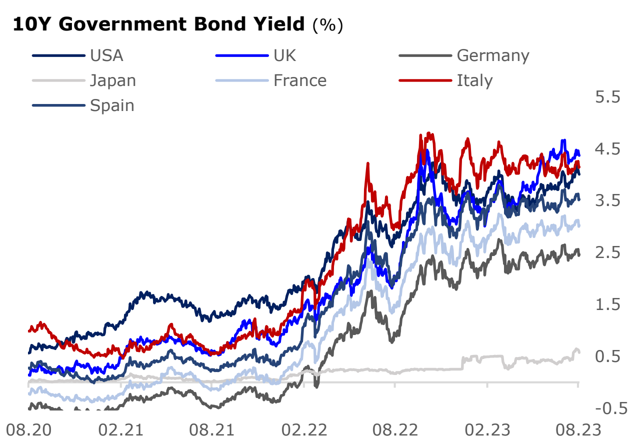
Several headwind face companies based in Türkiye, stemming from both global and domestic conditions; rapid monetary tightening, restrictive financial conditions and export-focused growth policies of China in the former scale and selective access to finance, policy rate hike expectations and FX regulations in the latter.

The tightening actions of major central banks (increasing interest rates and quantitative tightening), especially the Fed, in order to fight inflation, increased global recession concerns. In addition to ongoing geopolitical risks, concerns that the global economy will head towards a recession in the upcoming period (by mid-2023 in particular) are still on the agenda.



Source: Refinitiv Datastream, Reuters Poll (Median Forecast)
*As of August 4, 2023

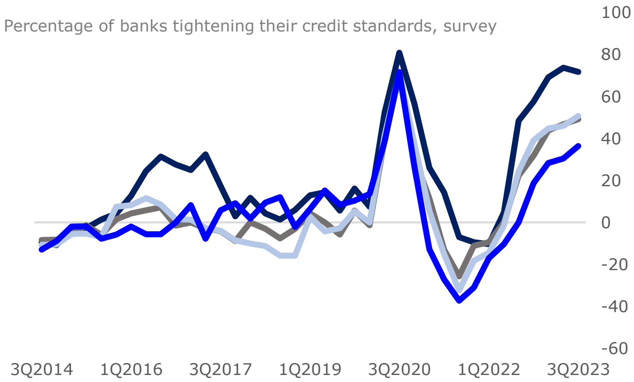
Unprecedented pace of tightening severely limited the risk appetite towards emerging markets while the flow of funds to emerging markets weakened. Funds instead flowed to safe instruments such as the dollar and gold, fueled partly by the fear of credit/counterparty risk.



Source: Refinitiv Datastream

As the rapidly rising Fed funds rate have not been reflected in deposits rate in the U.S., a deposit outflow from banks to money market funds (MMFs) have occurred, forcing certain banks to sell their bond portfolios at a loss due the rising interest rates, fueling a loss of confidence in banking sector. Concerns about the banking crisis, which started with the bankruptcy of Silicon Valley Bank in the U.S., appeared as another development that disrupted the growth expectations in the U.S. Lately, First Republic Bank also failed in U.S. Even though First Republic was acquired by JP Morgan Chase Bank, there are still small regional banks in distress, raising concerns. Liquidity issues due to deposit loss as chronically low deposit rates induce savers to invest in MMFs rather than stay as depositors linger and smaller regional banks with large blocks of deposits are particularly vulnerable. As a result, lending activity could slow, leading to a slower economic activity.

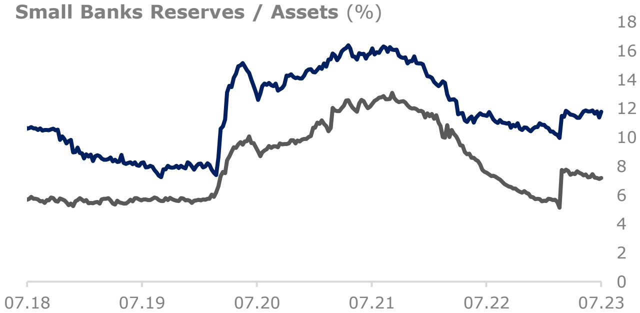
US credit standards have been tigthening to pandemic levels
Commerical Real Estate (%) **Small** (%)
Medium & Large (%) **Credit Cards** (%)



Source: St. Louis Fed

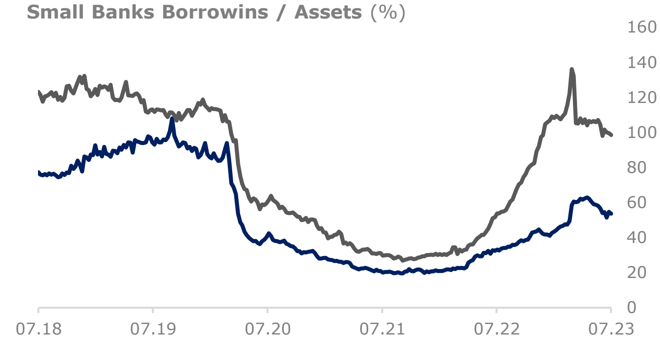
While the US credit standards has been tightening, the expectations regarding the continuation of the rate hike on the Fed is one more hike for rest of the current year.

Small banks' liquidity have been drying..
Large Banks Reserves / Assets (%)
Small Banks Reserves / Assets (%)



Source: St. Louis Fed

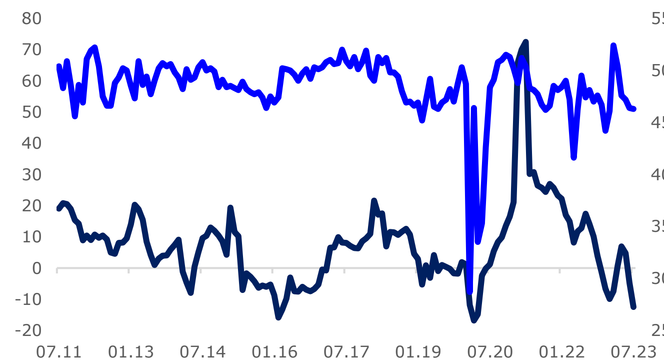
Small Banks' borrowings have incresed significantly.
Large Banks Borrowings / Reserves (%)
Small Banks Borrowins / Assets (%)



Source: St. Louis Fed

On the other hand, supply chain dislocations due to lockdowns and mobility restrictions had severely hampered international trade in 2020 and in 2021 to a lesser extent. Chinese authorities had implemented probably the most-strict of such restrictions, at times effectively shutting down total neighborhoods, manufacturing districts and cities due to a single occurrence of a positive case.

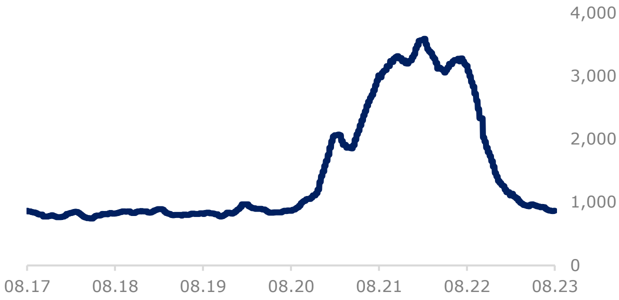
NBS PMI: new export orders
Export Growth (12M % Change, 3 MMA)



Source: Refinitiv Datastream

Additionally, aforementioned bottle-necks had resulted in disrupted sea trade and significantly increased the costs of sourcing goods from overseas and particularly China. This had led the manufacturing countries to search for low final cost of goods, effectively incentivizing them to source their inputs from nearby locations.

Freight costs have been falling to pre-pandemic levels
China containerized freight index

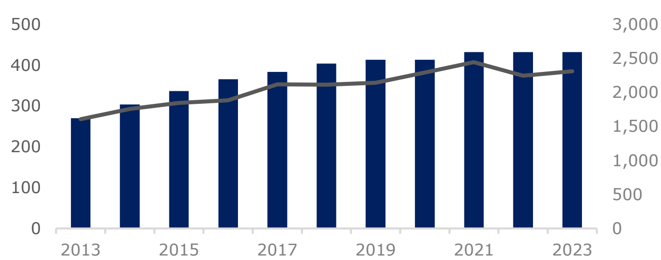


Source: Refinitiv Datastream

As a result, Chinese manufacturing capabilities had suffered and certain sectors had lost market share to more flexible and geographically advantageous countries. Among these countries was Türkiye, which had benefitted greatly from its proximity to Europe, Middle East and Africa. In fact, coupled with a highly competitive exchange rate, close proximity, strict lockdown practices in China, Türkiye exports had risen strongly.

However, Chinese authorities had sharply reversed their Zero-Covid policy in the beginning of 2023. Contrary to expectations, China's reopening has not yet shown a positive impact on the export and manufacturing industry. Given the chronically weak domestic demand in China, we expect the administration to further focus on increasing exports in order to achieve their growth targets.

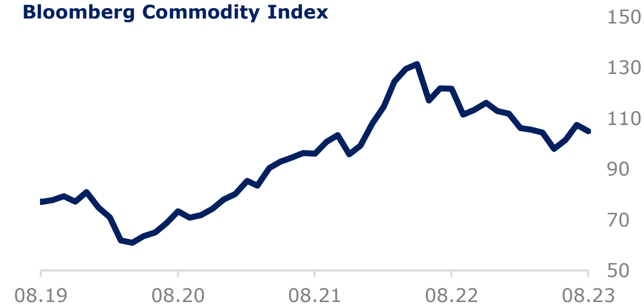
Minimum wage in China is more stable, crawling steadily
Shangai Minimum Wage (CNY/Month)
Minimum Wage in USD (monthly, left axis)



Source: Ministry of Human Resources and Security, China

This strong commitment to supporting exports is coupled with normalizing freight rates, which effectively helps Chinese manufacturers to compete more easily with exporters close to their trade partners geographically.

Commodity prices slump, as global economy slows down
Bloomberg Commodity Index



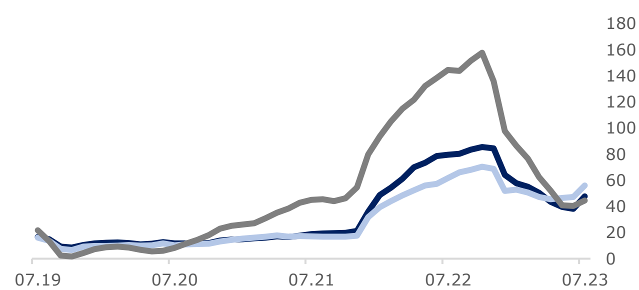
Source: Refinitiv Datastream

Spillovers to Türkiye

Recently, main theme affecting Turkish corporates is the exchange rate path and access to financing, the cost of the loans notwithstanding. While the current economic policy mix is not fully revealed, market developments and statements so far indicate an exchange level supporting export competitiveness, limiting imports and finally a normalized interest rate curbing loan growth.

These developments have been affecting the Turkish economy through many channels. At first, rising energy prices have pressured the current account balance in Türkiye, and the increase in food and energy prices has been a factor of inflationary pressure, as well as on the global side.

Türkiye Inflation (y.o.y)
CPI **Core CPI** **PPI**



Source: Turkstat

Although the trade channel (especially energy and food supply) was not adversely affected by Türkiye's moderator role between Russia and Ukraine, the construction/contracting sector was adversely affected by the developments. According to the Turkish Contractors Association (TMB), the Turkish contracting companies undertook 413 projects in 69 countries amounting to USD 30.7bn and the leading market was again Russia with a share of 36% in 2021. Ukraine was also ranked 4th with a share of 5%. At FY2022, the Turkish contracting companies undertook projects amounting to USD of 18.71bn and Russia accounted for only USD 2.34bn of this amount.

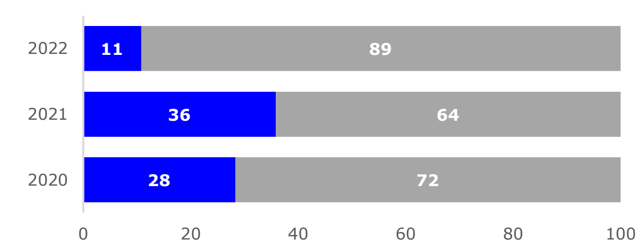
Türkiye's International Contracting Services (in billion USD)

	FY2021		FY2022
1. Russia	11.02	**1. Russia**	2.34
2. Iraq	3.62	**2. Azerbaijan**	1.77
3. Tanzania	1.91	**3. Iraq**	1.58
4. Ukraine	1.64	**4. Romania**	1.49
5. Zambia	1.35	**5. Uzbekistan**	1.32
Other	11.23	**Other**	6.29
Total	**30.77**	**Total**	**18.71**

Source: Ministry of Trade of Türkiye, TMB

Russia's share in total international contracting projects amount declined due to the war between Russia and Ukraine.

Russia's share in total international contracting projects amount declined due to the war between Russia and Ukraine
Russia **Others** (%)



Source: Ministry of Trade of Türkiye, TMB

Although the ongoing war between Russia and Ukraine continue to affect the international contracting business' breakdown, Turkish contractors undertook projects worth of USD 7.5 billion in the first half of the current year on account of entering into new markets.

Türkiye's International Contracting Services (in million USD)

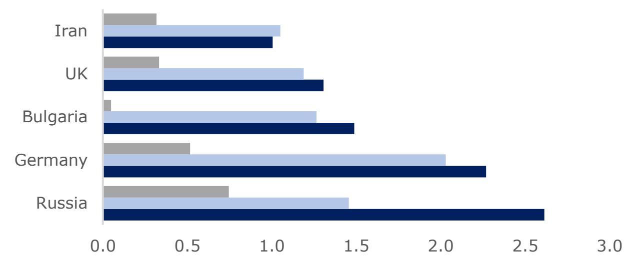
	1H2022		1H2023
1. Romania	1,298	**1. Spain**	1,039
2. Iraq	439	**2. Libya**	941
3. Russia	396	**3. Turkmenistan**	810
4. Qatar	392	**4. Macedonia**	699
5. Iran	326	**5. Russia**	626
Other	1,776	**Other**	3,383
Total	**4,627**	**Total**	**7,498**

Source: Ministry of Trade of Türkiye, TMB

Russian and Ukrainian visitors are also important in terms of the local tourism industry. With regards to foreigners' composition, Ukraine and Russia drew attention from both countries increased their shares in the visitor pool during 2019 and 2021. Although, the military invasion of Russia's on Ukraine worsened tourism expectations, but surprisingly, Russian visitors realized as 5.23 million as of FY2022 and surpassed the level in the same period of the previous year. However, it still stood below the 2019 level of 7.02 million. The number of Ukrainian visitors felt sharply from 2.06 million to 675K in 2022.

As of first half of 2023, 19.62 million of foreign visitors (2.6 million of them were Russian visitors) came to Türkiye which was 16.37 million in the same period of the previous year.

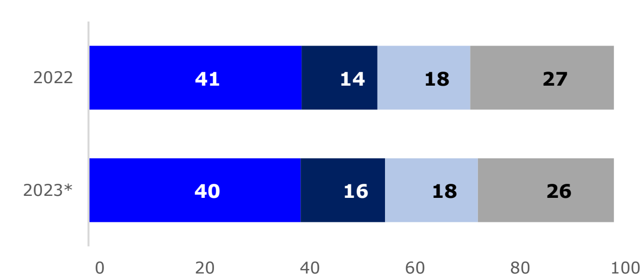
In the January-June period, the number of Russian visitors, which declined in 2022 due to the war, bounced back in 2023.
2023 **2022** **2021**



Source: Republic of Türkiye Ministry of Culture and Tourism

Besides all these effects, it is quite possible that Europe (especially Germany), our biggest trading partner, going into recession as a result of the tightening actions will adversely affect the Turkish economy through the trade channel. As of June 2023, last twelve months of Turkish export to EU realized as USD 101.65bn which was USD 103.05bn in FY2022. In terms of export perspective, all developments will be observed by JCR-ER for the upcoming period.

Turkish Export Composition (As of June, 2023)
EU **Other European Countries**
Near and Middle Eastern **Others**

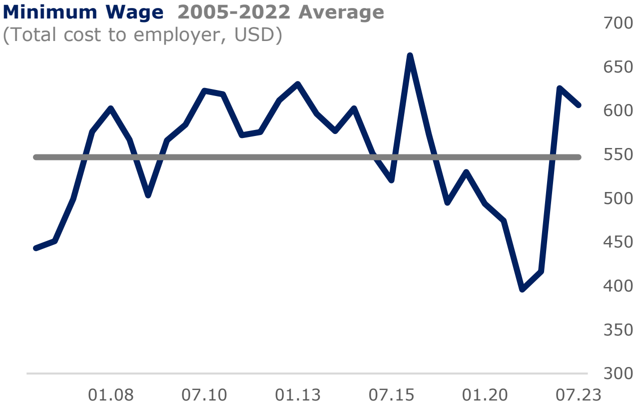


*Last twelve observations
Source: Turkstat

Further pressurizing the Turkish exporters are cost factors, mainly in terms of wages and energy prices.

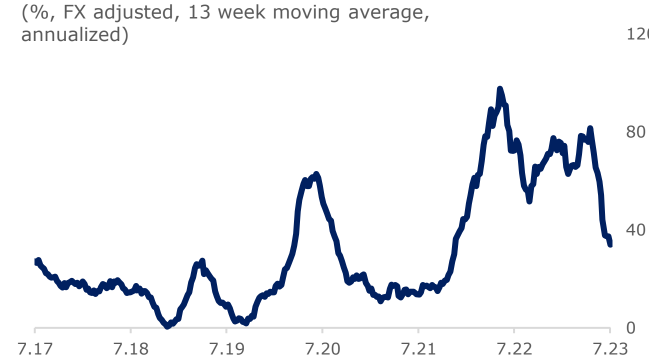
2023 hike of minimum wage to TRY 15,762.04, including total costs to the employer (gross: TRY 13,414, net: TRY 11,402). The latest increase in minimum wage effective July 2023 pushed the total cost to employers to USD 670, using average USDTRY rate for June 2023. Therefore, assuming a gradual depreciation for the rest for 2023, circa 20% yet barring a notable depreciation of Turkish Lira rest of the year (exceeding 20%), a minimum wage of USD 550 seems to be the lower bound. This level would be comparable to the long running average of the total cost to employer, therefore could potentially alleviate pressures to the sectors operating with high labour intensity.

Increases in minimum wage has pushed employment cost
Minimum Wage **2005-2022 Average**
(Total cost to employer, USD)



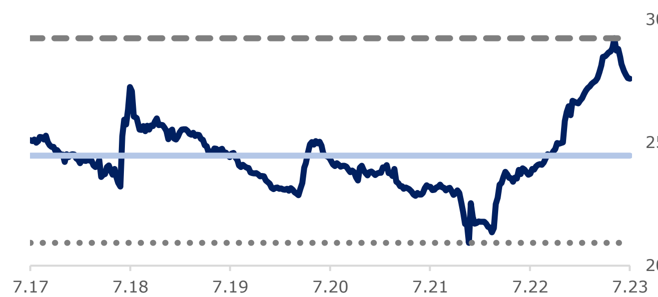
Access to finance is another major topic affecting Turkish corporates, as the selective lending policies aimed to supporting exports, agricultural production, investments and SMEs have resulted in a divergence in financial conditions. Whereas SMEs with export orientation had favourable access to LCY financing at deeply negative real rates, large scale companies or those focused on serving domestic demand had much more difficulties in obtaining loans. Considering that the main reason for loan applications is working capital financing, failure to access financing could hamper operations.

Credit growth slows down post tightening measures
(%, FX adjusted, 13 week moving average, annualized)



Source: BRSA

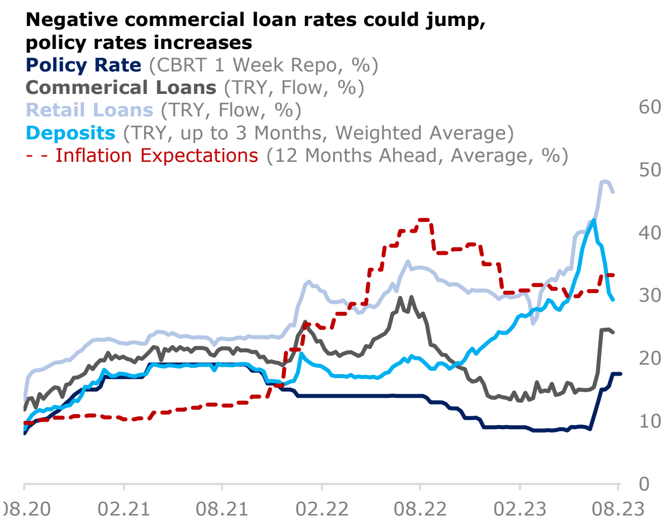
SME loan share has started to decline
Loan share (%, in total loans) **Historical average**



Source: BRSA

Current global and local macro outlook is more accommodative for export-oriented firms, particularly those in selected sectors with SME scale. However, for the non-qualifying firms, access to financing is a major issue potential disrupting their operations.

As of June 2023, new economic administration commenced a new program focusing on price stability and rule-based decision making. With this aim, policy rate was hiked to 17.5%, from 8.5% with two steps. According to current regulations affecting commercial loan rates, banks could increase commercial loan rates to 25% without triggering macroprudential bond-buying thresholds. According to CBRT and BRSA data, approximately 70% of Lira commercial loans have floating rates, meaning the new interest rates could be reflected on the real sector quite rapidly.



Despite of the increase in interest rates, still negative interest rates and a plethora of regulations fine-tuning loan growth, loan interest rates and deposit rates, most banks had slowed down lending and/or restricted lending to very short term. In the second half of 2023, increasing loan rates and slowing down credit growth would translate into tighter credit standards. Considering the relationship between financial conditions and growth, a gradual slowdown could be expected.

With respect to the factors mentioned above, JCR Eurasia Rating has revised the Long-Term National Rating of Arena Finans Faktoring A.Ş. from **'BBB (tr)'** to **'BBB+ (tr)'** and affirmed the Short-Term National Rating at **'J2 (tr)'** in JCR Eurasia Rating's notation system which denote the investment-grade category.

The Company's Long-Term International Foreign and Local Currency Issuer Credit Ratings were determined as **'BB'**, in line with the international ratings and outlooks of Republic of Türkiye.

2. Rating Outlook

The Company's revenue generation capacity, asset quality, capital adequacy, risk management infrastructure supported by internal control systems, high provision level, experienced management team together with the general outlook of the sector have been evaluated as important indicators for the stability of the ratings and the outlooks for Long and Short-Term National Issuer Credit Ratings are determined as **'Stable'**.

Arena Finans Faktoring's turnover and asset development, attainability of the Company's budgeted projections, net interest margin trend, market share, profitability indicators, capitalization level, funding structure, the growth in the number of customers in the competitive market, improvements in receivable portfolio granularity to reduce the concentration exposure to be monitored by JCR Eurasia Rating.

Additionally, the Company's outlook for Long-Term International Issuer Credit Ratings has been assigned as **'Negative'** in line with the sovereign rating outlooks of the Republic of Türkiye.

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

Factors that Could Lead to an Upgrade

- Solid growth performance in assets volume,
- Considerable decrease in NPL ratio,
- Robust amelioration of profitability indicators,
- Significant increase in market shares,
- Reduction in financing costs and robust economic growth in the domestic and international markets supporting the real and factoring sector,
- Upgrades in sovereign ratings and economic growth prospects of Türkiye.

Factors that Could Lead to a Downgrade

- Decreasing net interest margin below the sector average,
- Considerable increase in NPL ratio,
- Deterioration in asset quality,
- Increasing cost of funding and its effect on profitability,
- Growing turmoil in the domestic and international markets and negative effects of these on the real and factoring sectors,
- Downgrades in the sovereign rating level of Türkiye.

3. Projections and Debt Instruments

The main targets of the Company for 2022 and the following periods are as follows:

- To increase the turnover size,
- To increase the factoring receivable,
- To increase the customer portfolio,

- To increase the borrowing profile through debt security,
- To increase the quality of service by commissioning of new products,
- To increase the share of export factoring transactions,
- To increase digital and physical field studies to support company promotion and marketing activities,
- To decrease the revolving loans.

The Company's FY2022 actual figures and balance sheet and income statement forecast throughout for FY2023 is provided in the below table. These figures have been provided by the Company management.

Arena Finans Faktoring A.Ş. Management – BS Projections		
TRY (000)	**2022A**	**2023E**
Banks and Other Earning Assets	2,634	2,091
Factoring Receivables	934,845	1,151,088
Net Overdue Loans	4,930	6,346
Other Assets	55,385	120,746
Total Assets	**997,795**	**1,280,272**
Factoring Payables	378,876	368,842
Bank Loans	446,923	612,000
Issued Debt Instruments	84,103	165,000
Other Liabilities	27,857	44,046
Equity	46,278	59,855
Net Profit	*13,757*	*30,529*
Total Liabilities & Equity	**997,795**	**1,280,272**

Arena Finans Faktoring A.Ş. Management –P&L Projections		
TRY (000)	**2022A**	**2023E**
Total Income	**61,134**	**147,628**
Provisions	*5,688*	*6,066*
Total Operating Expenses	*34,215*	*110,051*
Pre-Tax Profit	**21,231**	**31,511**
Taxes	*7,474*	*982*
Net Profit	**13,758**	**30,529**

The Company projected a 2023 year-end asset size of TRY 1,280.28mn through annual growth rates of 28.31%. According to the Company management projections, total income is projected to reach TRY 147.63mn by increasing 141.48% in FY2023. Accordingly, net profit of the Company is projected to reach TRY 30.53mn from TRY 13.76mn.

The stated growth projection will be financed also through available credit lines and the issuance of debt instruments. In 2023, the Company continues to issue TRY denominated bond issuances to diversify funding resources and reduce borrowing from financial institutions.

Considering the assumption that there will be no additional legal or financial collateral guarantees provided separately for the repayment of the bonds-to-be-issued, as is the general case in the Turkish corporate bond market, the TRY dominated bond issuance rating is determined as the same as the Company's Long and Short Term National Local Ratings which are '**BBB+ (tr)**' and '**J2 (tr)**'.

Taking into consideration the Company's past growth and projections relating to FY2023 we, as JCR Eurasia Rating, are of the opinion that Arena Finans Faktoring shall fulfil the obligations in a timely manner and without distress as long as it preserves its current market shares, business mix and efficiency along with no deterioration in the general macro-economic context and sector dynamics.

4. Company Profile & Industry

a. History and Activities

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

As a factoring services provider, the Company'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.

The sector is supervised by Banking Regulation and Supervision Agency of Türkiye (BRSA) since 2006 and the market players are members of Associations of Financial Institutions, an umbrella organization for factoring, leasing and consumer finance companies.

The Company had an average workforce of 56 employees in FY2022 (FY2021: 50; FY2020: 46).

b. Shareholders, Subsidiaries & Affiliates

Tezmen Family has the principal shareholder status of the Company. The shareholder structure of the Company is as follows.

Shareholder Structure (%)	FYE 2022	FYE 2021
Emre Tezmen	53.00	53.00
Oğuz Tezmen	37.00	37.00
Gül Ayşe Çolak	9.99	9.99
Fatma Nurcan Taşdelenler	0.01	0.01
Tolga Diramaliol	0.00	0.00
Paid-in Capital (TRY 000)	**50,000**	**50,000**

The paid-in capital of Arena Finans Faktoring remained unchanged at TRY 50mn as of FYE2022.

Board of Directors was comprised of 4 members. The Company's general manager is an executive board member as well. The Executive Board, also a general manager, provides guidance to the Company's long-term operations.

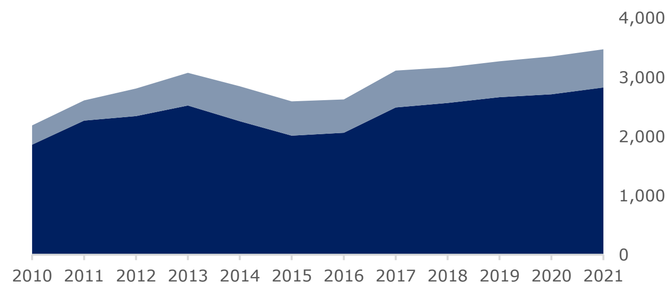
As of reporting date, the Company's Board of Directors is as follows.

Board of Directors	
Oğuz Tezmen	Chairman
Emre Tezmen	Vice Chairman
Gül Ayşe Çolak	Board Member
Fatma Nurcan Taşdelenler	Board Member / General Manager

c. Industry Assessment

Factoring companies, which provide faster "collateral", "financing" and "collection" services compared to banks through the transfer of receivables arising from sales of goods and services, are one of the essential players in non-bank financial markets. In terms of the rapid liquidity providing capacity of the sector to the real economy makes it one of the vital sectors for national economies.

Global factoring volume was about USD 3,500bn in 2021.

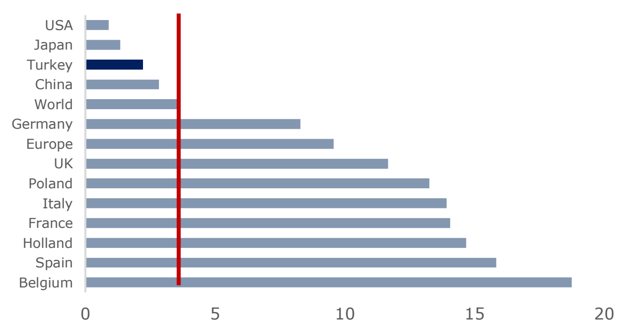


Source: AFI, JCR-ER

Global factoring transaction volume has been escalating year by year except for the 2013-2015 period. According to the data obtained from Association of Financial Institutions (AFI), in 2021, global factoring transactions raised by 3.6% and were realized as amounting of USD 3,500bn where 18.6% of contains international transactions.

Analysis of the regional distribution of factoring transactions achieved in 2021 reveals that 69% of the greatest total transactions are realized on the European continent, followed by the Asia-Pacific with 23.7%. Türkiye, only accounts for 0.5% of worldwide transaction volume.

Penetration rate in developed countries perform well-above the global averagein 2021.



Source: AFI, JCR-ER

Another indicator related to the sector is the penetration rate, which is measured as the share of the sector's turnover in GDP, was calculated as 3.6% for the world in 2021. The remarkable point in penetration rates is above the global average in developed countries.

However, as exceptions to this situation, it was noteworthy that Poland, which is a developing country, had a high rate of 13.3%, while the world's largest economy, the USA, remained as low as 0.9%. Türkiye, on the other hand, was below the world average with a penetration rate of 2.2% in 2021.

General Outlook of the Sector in Türkiye

Turkish Factoring sector has been containing 49 companies of various sizes with a total of 358 branches and 4,008 employees. 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.

On the other hand, non-bank subsidiary companies have common fundamental characteristics that are operating 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.

In the coming period, newly introduced regulations by CBRT will be on agenda for the 2023. Although the macroprudential measures implemented in the financial system in the last financial year mostly include the regulations for banks, factoring institutions were also included in the scope of required reserve application with the regulation published by the CBRT on 31 December 2022.

The implementation which requires establishing securities in terms of required reserves according to the level of interest rates applied to loans initially started with banks has been expanded to the factoring sector which obliges factoring companies to establish securities according to the interest rate levels charged to factoring receivables in TRY.

After the security establishment regulation, an increase in the financial assets of factoring companies will be inevitable. How the funding structure of the securities to be established will emerge as one of the important topics to be followed in the coming period in terms of the balance sheet composition of the sector.

Selected Balance Sheet Items for Factoring Companies
(in million TRY)

	2020	2021	2022
Cash, Cash Equivalents, and Central Bank	1,000	2,101	2,747
Financial Assets	44,855	59,910	127,383
Factoring Receivables	44,565	59,543	127,276
Discounted Factoring Receivables	*20,670*	*32,176*	*65,239*
Other Factoring Receivables	*17,940*	*27,367*	*62,037*
Non-Performing Receivables	1,828	1,700	2,099
Allowances for Expected Credit Loss	1,598	1,512	2,248
Tangible Assets	682	789	1,208
Other Assets	1,507	2,171	4,288
Total Assets	**48,044**	**64,971**	**135,626**
Funds Borrowed	33,786	46,243	104,041
Securities Issued	3,802	5,031	9,724
Other Liabilities	1,510	2,881	5,335
Shareholders' Equity	8,946	10,816	16,526
Paid-in Capital	3,808	4,408	5,030
Total Liabilities and Equity	**48,044**	**64,971**	**135,626**

Source: BRSA, JCR-ER

Deterioration Observed in Liquidity Metrics

According to the data published by Banking Regulation and Supervision Agency (BRSA), the sector raised its total asset size by 108.8% in comparison to FYE2021 and amounted to TRY 135.63bn as of FYE2022. Composition of asset side of balance sheet for the sector is highly dominated by its main activity area of factoring receivables which occupies a share of among sector’s assets with a rate of 93.8%. As a reflection of the increase in the receivables of real sector firms, which increased due to the nature of the inflationary environment, factoring receivables increased by 113.8% compared to the end of 2021, exceeding the TRY 127bn level.

It is known that the sector mainly meets its financing needs from two sources. While financing obtained through borrowing from banks is a significant part of the source of financing for factoring companies, the sector has also had the ability access to finance through issuing securities. As of December 2022, bank borrowings kept a share of 76.7% in total assets which was 71.2% in FYE2021.

All of this realization in 2022, the general liquidity condition of the sector worsened when the rate of growth in bank borrowings is contrasted with the rates of growth in total assets and current assets. In this regard, the decrease in the share of equity in total assets and the increase in the leverage ratio impose risks on the factoring sector.

Sectoral Concentration Appears as a Risk Factor for the Sector

When the distribution of turnover in factoring services is examined by sectors, the share of the manufacturing sectors, which was 48.5% at the end of 2021, maintained its leading position of 51.2% in the FYE2022.

The share of service sectors in the total sector turnover, however, decreased from 48.8% to 45.3% in the same period. The sectoral breakdown of factoring revenues which is provided by BRSA are presented in the table below.

Sectoral Breakdown of Factoring Revenues
(in million TRY)

	2021		2022	
	Domestic	Foreign	Domestic	Foreign
Wholesale and Retail Trading Motor Vehicles Services	42,765	3,601	84,697	11,266
Textile and Textile Products Industry	7,573	11,438	17,393	556
Construction	16,395	97	28,441	260
Transportation Vehicles Industry	10,516	923	13,179	10,335
Extracting of Mines Producing Energy	3,770	349	20,869	556
Manufacturing Total	72,149	24,649	161,325	45,634
Services Total	93,244	4,235	170,394	12,601
TOTAL	170,189	29,365	344,876	58,951

Source: BRSA, JCR-ER

When the turnover analysis is extended from industries to sectors, it is seen that the 5 sectors with the highest business volume constitute 46.4% of the total business volume. Particularly, the concentration experienced in the retail and wholesale trade and textile sectors draws attention.

Another striking factor in the data is the high level of international factoring transactions for metal and textile industries with high export potential. So, concentration on specific sectors imposes risks for the factoring companies.

Inflationary Environment, Raising Interest Rates Boosted Net Profit

Inflationary environment in 2022 boosted income statements as well balance sheets. So, operating income in the FYE2022, operating income from factoring transactions jumped by130.5% and reached to TRY 22,607mn. However, financial costs went up by 114.8% concurrently with the rise in borrowing costs. Thus, in the mentioned period sector recorded TRY 5,201mn net profit.

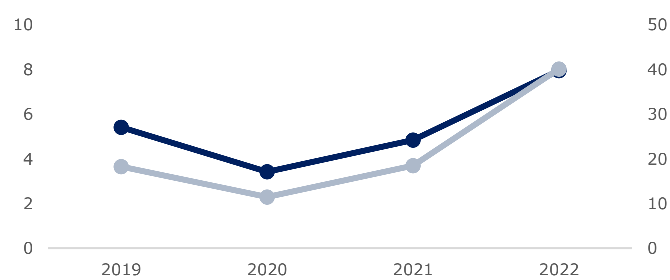
Selected Income Statement Items for Factoring Companies
(in million TRY)

	2020	2021	2022
Operating Income	5,511	9,809	22,607
Factoring Income	5,511	9,809	22,607
Financial Expenses	3,005	6,288	13,504
Gross Profit/Loss	2,505	3,521	9,103
Operating Expenses	1,286	1,629	2,495
Other Operating Profit/Loss	672	1,171	1,517
Net Operating Profit/Loss	1,274	2,402	6,818
Net Profit	979	1,821	5,201

Source: BRSA, JCR-ER

Profitability metrics, which decreased in 2020 as a result of the pandemic, increased in 2021 along with the recovery. The sector's profitability indicators increased along with the net profit figure, which was still recovering significantly in the FYE2022. While ROAE increased by more than twice from 18.49 to 40.1, ROAA rose sharply from 4.84 at the end of 2021 to 7.95 in mentioned period of current year.

Boosted net income strenghtened profitability metrics.



Source: BRSA, JCR-ER

5. Additional Rating Assessments

The principal financial risks that the Company is exposed to include credit, market and liquidity risks along with operational risks which will be examined in greater detail in the following sections.

Banking Regulation and Supervision Agency (BRSA) and Capital Markets Board (CMB) regulations demand certain corporate governance and risk management safeguards. The establishment and surveillance of the risk management structure is under the responsibility of the Board of Directors and senior management. The Board of Directors, the ultimate responsible authority for risk management, delegated its supervision duties to the committees formed.

The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company.

Credit Risk

Credit risk is defined as the risk of default on a debt obligation that may arise from a borrower failing to make required payments in full and timely manner. The credit risk of the Company stems from factoring and other receivables from debtors and receivables from other sources.

The credit risks that the Company is exposed to and the credit ratings of its customers are constantly monitored. Credit risk is controlled through limits set for customers and reviewed and approved by the Company management.

Credit risk of the financial instruments is as follows;

(TRY 000)	2019	2020	2021	2022
Factoring Receivables	188,375	239,216	368,209	929,916
Cash on deposit	20,500	3,910	5,965	2,632
Other Assets	3,242	11,193	17,173	26,701
Total	**212,116**	**254,319**	**391,347**	**959,249**

The Company seeks to mitigate credit risk by conducting transactions only with creditworthy parties and, where possible, obtaining adequate collaterals.

The Company's credit risk management functions are under the responsibility of the Credit Monitoring and Credits Department. The Company established a credit risk strategy created in accordance with the Board and Credit Committee decisions are taken by considering the Company's risk appetite and the level of available resources.

As of FYE2022, the Company's factoring receivables are spread across diverse sectors, with the highest concentration on customers operating in wholesale - retail (38.0%), agriculture and livestock (19.7%), paper (10.09%), food, beverage and tobacco industry (8.3%) and manufacturing industry (4.2%) as of FY2022.

Market Risk

Market risks stem from fluctuations in the value of a financial instrument which could potentially impact the Company's future cash flows. These include foreign currency risk, interest rate risks and risks relating to changes in the prices of financial instruments and commodities.

Foreign exchange risk

The carrying amount of the Company's foreign currency denominated financials for the last four-year period are as follows:

(TRY 000)	2019	2020	2021	2022
Assets	21,654	1,825	4,645	5,420
Liabilities	-1,787	-1,171	-6,299	-2,910
Net FX Position	**19,867**	**655**	**-1,654**	**2,510**

As shown in the table above, the Company has long net FX position in FY2022.

Interest rate risk

The Company is exposed to the fluctuations in interest rates due to the containment of assets and liabilities in its balance sheet carrying interest rates. The Company manages the interest rate risk by applying risk management strategies and matching the interest rate changes of assets and liabilities.

The interest rate risk of the Company is derived from the bond issuances carrying floating interest rates. Accounting for 15.70% of resource volume as of FYE2022, issued debt securities made up an integral part of the Company's financing sources.

In this sense, movements of the market rates have a notable impact on the profitability.

The Company's interest-sensitive financial instruments as follows:

(TRY 000)	2019	2020	2021	2022
Fixed Interest Rate				
Factoring Receivables	188,375	239,216	368,209	929,916
Factoring Payables	58,099	119,741	211,087	378,876
Short Term Bank Loans	92,581	47,854	82,786	446,923
Floating Interest Rate				
Debt Instruments	52,873	68,545	70,854	84,103

Liquidity Risk

Liquidity risk arises from uncertainty regarding maturity profiles of assets and liabilities, in particular cash inflows and outflows. The Company is exposed to liquidity risk during the funding of its operations and manages its liquidity risk by regularly monitoring forecasted and actual cash flows, matching the maturity profiles of financial assets and liabilities and providing the continuation of adequate funding sources.

The Company meets its funding needs through its equity, bank loans and bond issuances and continuously analyses the liquidity risk by monitoring the changes in its funding sources as well as the collection and payment schedules. In this regard, the Company management attempts to ensure that bank credit lines are available and additional funds can be realized in a timely manner.

As of FY2022, the average maturity of the Company's financial borrowings (less than 3 months) was less than the average maturity of its factoring receivables (3-6 months), exposing the Company to some liquidity and repricing risks. Moreover, Arena Faktoring consistently issue securities (bills/bonds) that cover its liquidity needs with proper maturities. Therefore, the Company arranged the average maturity of its financial borrowings with bond issuances to match the average maturity of its factoring receivables during the review period.

Furthermore, the Company closely monitors the liquidity position on a daily basis and models the cash requirements. The Company convenes weekly to monitor the periodic cash flow position and requirements.

Operational, Legal Regulatory & Other Risks

Operational risk is defined as the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure. The operational risks arising from the nature of the business are well identified and closely monitored by the Company management.

In order to minimize or avoid operational risks, the Company implements policies regarding occupational safety, ethical and business standards, segregation of duties, compliance with legal and regulatory requirements, risk mitigation and documentation of processes as well as development of polices regarding the definition, measurement and control of operational risks.

Moreover, the Company did not receive penal action by the regulatory and supervisory authorities, within the scope of legal risk.

Arena Finans Faktoring A.Ş. BALANCE SHEET - ASSET TRY (000)	(Year-end) 2022 USD (Converted)	(Year-end) 2022 TRY (Original)	(Year-end) 2022 TRY (Average)	(Year-end) 2021 TRY (Original)	(Year-end) 2021 TRY (Average)	(Year-end) 2020 TRY (Original)	(Year-end) 2020 TRY (Average)
A-TOTAL EARNING ASSETS (I+II+III)	**50,137**	**937,480**	**662,381**	**387,282**	**318,212**	**249,143**	**234,166**
I- LOANS AND RECEIVABLES (net)	**49,996**	**934,845**	**651,844**	**368,842**	**304,646**	**240,449**	**215,062**
a) Factoring Receivables	49,733	929,916	649,062	368,209	303,712	239,216	213,795
b) Financing Loans	0	0	0	0	0	0	0
c) Lease Receivables	0	0	0	0	0	0	0
d) Over Due Loans	1,758	32,875	28,191	23,508	22,932	22,356	21,875
e) Others	0	0	0	0	0	0	0
f) Receivable from Customer due to Brokerage Activities	0	0	0	0	0	0	0
g) Allowance for Loan and Receivables Losses (-)	-1,495	-27,945	-25,410	-22,875	-21,998	-21,122	-20,609
II-BANKS AND OTHER EARNING ASSETS	**141**	**2,634**	**10,537**	**18,440**	**13,567**	**8,693**	**19,104**
a) Banks	141	2,632	4,298	5,965	4,937	3,910	12,205
b) Other	0	2	6,238	12,475	8,629	4,783	6,900
c) Balance with Banks-Current Accounts	0	0	0	0	0	0	0
III-SECURITIES AT FAIR VALUE THROUGH P/L	**0**	**0**	**0**	**0**	**0**	**0**	**0**
a) Treasury Bills and Government Bonds	0	0	0	0	0	0	0
b) Other Investment	0	0	0	0	0	0	0
c) Repurchase Agreement	0	0	0	0	0	0	0
B- INVESTMENTS IN ASSOCIATES (net)+EQUITY SHARE	**801**	**14,971**	**7,516**	**61**	**61**	**61**	**61**
a) Investments in Associates (net)	801	14,971	7,516	61	61	61	61
b) Equity Share	0	0	0	0	0	0	0
C-NON-EARNING ASSETS	**2,425**	**45,344**	**38,610**	**31,877**	**27,037**	**22,198**	**18,149**
a) Cash and Cash Equivalents	0	0	0	0	0	0	0
b) Financial Assets at Fair Value through P/L	0	0	0	0	0	0	0
c) Asset Held for Sale and Discontinued Operations (net)	0	0	0	0	0	0	0
d) Other	2,425	45,344	38,610	31,877	27,037	22,198	18,149
- Intangible Assets	368	6,873	4,660	2,447	1,644	841	518
- Property and Equipment	1,010	18,880	13,640	8,400	8,834	9,269	8,990
- Deferred Tax	112	2,103	2,374	2,646	1,759	872	953
- Other	935	17,488	17,936	18,383	14,800	11,217	7,688
TOTAL ASSETS	**53,363**	**997,795**	**708,507**	**419,219**	**345,311**	**271,402**	**252,376**

- *Including JCR Eurasia Rating's adjustments where applicable,*

Arena Finans Faktoring A.Ş. BALANCE SHEET-LIABILITIES+EQUITY TRY (000)	(Year-end) 2022 USD (Converted)	(Year-end) 2022 TRY (Original)	(Year-end) 2022 TRY (Average)	(Year-end) 2021 TRY (Original)	(Year-end) 2021 TRY (Average)	(Year-end) 2020 TRY (Original)	(Year-end) 2020 TRY (Average)
C- COST BEARING RESOURCES (I+II)	**48,903**	**914,410**	**640,492**	**366,573**	**302,879**	**239,185**	**222,355**
I-PAYABLES	**20,504**	**383,384**	**298,158**	**212,932**	**167,859**	**122,786**	**91,429**
a) Factoring Payables	20,263	378,876	294,982	211,087	165,414	119,741	88,920
b) Lease Payables	241	4,508	3,177	1,846	2,445	3,045	2,509
c) Other	0	0	0	0	0	0	0
II-BORROWING FUNDING LOANS & OTHER	**28,400**	**531,026**	**342,333**	**153,641**	**135,020**	**116,399**	**130,926**
a) Fund Borrowed-Short Term	23,902	446,923	264,855	82,786	65,320	47,854	70,217
b) Fund Borrowed-Long Term	0	0	0	0	0	0	0
c) Marketable Securities for Issued (net)	4,498	84,103	77,479	70,854	69,700	68,545	60,709
d) Securities Sold Under Repurchase Agreements	0	0	0	0	0	0	0
e) Subordinated Loans	0	0	0	0	0	0	0
D- NON-COST BEARING RESOURCES	**1,249**	**23,349**	**14,694**	**6,039**	**4,309**	**2,579**	**1,929**
a) Provisions	410	7,666	6,117	4,568	2,558	549	448
b) Current & Deferred Tax Liabilities	0	0	0	0	0	0	0
c) Trading Liabilities (Derivatives)	0	0	0	0	0	0	0
d) Other Liabilities	839	15,683	8,577	1,471	1,751	2,030	1,481
E- TOTAL LIABILITIES	**50,152**	**937,759**	**655,186**	**372,612**	**307,188**	**241,764**	**224,284**
F- MINORITY INTEREST	**0**		**0**		0		**0**
F- EQUITY	**3,211**	**60,036**	**53,321**	**46,607**	**38,123**	**29,638**	**28,092**
a) Prior Year's Equity	2,493	46,607	38,123	29,638	28,092	26,546	25,186
b) Equity (Internal & external resources added during the year)	-18	-329	7,230	14,789	7,382	-24	-21
c) Minority Interest	0	0	0	0	0	0	0
d) Profit & Loss	736	13,757	7,968	2,180	2,648	3,117	2,927
TOTAL LIABILITY+EQUITY	**53,363**	**997,795**	**708,507**	**419,219**	**345,311**	**271,402**	**252,376**

- *Including JCR Eurasia Rating's adjustments where applicable,*

Arena Finans Faktoring A.Ş. **INCOME STATEMENT** **TRY (000)**	**2022**	**2021**	**2020**
Net Interest Income	**47,626**	**15,023**	**10,219**
A) Interest income	225,853	75,448	41,135
a) Factoring Interest Income	225,853	75,448	41,135
b) Financing Loans Interest Income	0	0	0
c) Lease Income	0	0	0
d) Banks	0	0	0
B) Financial Expense	178,227	60,425	30,916
Net Fee and Commission Income	**6,870**	**3,151**	**3,105**
a) Fee and Commission Income	9,231	3,777	3,423
b) Fee and Commission Expense	2,361	626	319
Total Operating Income	**6,638**	**1,668**	**1,411**
Interest Income from Other Operating Field	0	0	0
Foreign Exchange Gain or Loss (net) (+/-)	162	267	1,612
Gross Profit from Retail Business	0	0	0
Gains or Loss on Derivative Instruments (+/-)	0	0	0
Income on Sale of Equity Participations and Consolidated Affiliates	0	0	0
Gain or Loss from Investment Securities (net) (+/-)	1,384	1,003	-976
Other Operating Income	5,092	398	775
Taxes other than Income Tax	0	0	0
Dividend	0	0	0
Provisions	**5,688**	**1,722**	**1,406**
Provision for Impairment of Loan and Trade Receivables	5,688	1,722	1,406
Other Provision	0	0	0
Total Operating Expense	**34,215**	**14,299**	**9,665**
Salaries and Employee Benefits	14,405	7,605	5,544
Depreciation and Amortization	0	0	0
Other Expenses	19,809	6,694	4,121
Profit from Operating Activities before Income Tax	**21,231**	**3,820**	**3,664**
Income Tax – Current	0	0	0
Income Tax – Deferred	7,474	1,640	546
Net Profit for the Period	**13,758**	**2,180**	**3,117**

- *Including JCR Eurasia Rating's adjustments where applicable,*

Arena Finans Faktoring A.Ş.

FINANCIAL RATIO %	**2022**	**2021**	**2020**
I. PROFITABILITY & PERFORMANCE			
1. ROA - Pretax Profit / Total Assets (avg.)	3.00	1.11	1.45
2. ROE - Pretax Profit / Equity (avg.)	39.82	10.02	13.04
3. Total Income / Equity (avg.)	114.65	52.05	55.93
4. Total income / Total Assets (avg.)	8.63	5.75	6.23
5. Provisions / Total Income	9.30	8.68	8.95
6. Total Expense / Total Resources (avg.)	5.22	4.65	4.74
7. Net Profit for the Period / Total Assets (avg.)	1.94	0.63	1.24
8. Total Income / Total Expenses	178.68	138.76	147.64
9. Non-Cost Bearing Liabilities + Equity- Non-Earning Assets / Assets	3.81	4.95	3.69
10. Non-Cost Bearing Liabilities - Non-Earning Assets / Assets	-2.20	-6.16	-7.23
11. Total Operating Expenses / Total Income	55.97	72.07	61.52
12. Net Interest Margin	7.19	4.72	4.36
13. Operating ROAA = Operating Net Incomes / Assets (avg.)	28.15	18.61	13.70
14. Operating ROAE = Operating Net Incomes / Equity Capital (avg.)	374.07	168.52	123.09
15. Interest Coverage – EBIT / Interest Expenses	111.91	106.32	111.85
16. Net Profit Margin	22.50	10.99	19.84
17. Gross Profit Margin	34.73	19.25	23.32
18. Asset Market Share	0.74	0.65	0.56
19. Asset Growth Rate	138.01	54.46	16.31
II. CAPITAL ADEQUACY (year-end)			
1. Equity Generation / Prior Year's Equity	-0.71	49.90	-0.09
2. Internal Equity Generation / Previous Year's Equity	29.52	7.35	11.74
3. Equity / Total Assets (Standard Ratio)	6.02	11.12	10.92
4. Equity / Total Liabilities	6.40	12.51	12.26
5. Free Equity / Total Receivables Ratio	2.07	9.68	8.10
6. Tangible Assets / Total Assets	1.89	2.00	3.42
7. Intangible Assets / Total Assets	0.69	0.58	0.31
III. LIQUIDITY (year-end)			
1. Liquid Assets + Marketable Securities / Total Assets	0.26	4.40	3.20
2. Liquid Assets + Marketable Securities / Total Liabilities	0.28	4.95	3.60
3. Short Term Borrowings / Total Assets	83.21	70.54	62.87
4. Net Interest and Commission / Total Assets	5.46	4.34	4.91
5. Liquid Assets + Marketable Securities / Equity	4.39	39.56	29.33
IV. ASSET QUALITY			
1. Loan and Receivable's Loss Provisions / Total Loans and Receivables	2.90	5.84	8.08
2. Total Provisions / Profit Before Provision and Tax	21.13	31.07	27.73
3. Impaired Receivables / Gross Receivables	3.41	6.00	8.55
4. Impaired Receivables / Equity	54.76	50.44	75.43
5. Loss Reserves for Receivables / Impaired Receivables	85.00	97.31	94.48
6. Collaterals / Total Receivables	7,801.64	2,824.85	3,075.07
7. Total FX Position / Total Assets	0.25	0.39	0.24
8. Total FX Position / Equity	4.18	3.55	2.21

- *Including JCR Eurasia Rating's adjustments where applicable,*

Rating Info

Rated Company:	Arena Finans Faktoring A.Ş. Eski Büyükdere Cd. İz Plaza Giz No: 9 Kat: 11 Maslak / İstanbul, Türkiye Telephone: +90 (212) 960 05 05 Fax: +90 (212) 960 05 25
Rating Report Preparation Period:	01.08.2023-22.08.2023
Rating Publishing Date:	24.08.2023
Rating Expiration Date:	1 full year after publishing date, unless otherwise stated
Audited Financial Statements:	FYE2022-FYE2021-FYE2020- FYE2019 | Solo
Previous Rating Results:	26/08/2022 / Long-Term National Issuer Credit Rating at BBB (tr) Other rating results for the Company are available at www.jcrer.com.tr
Rating Committee Members:	Ş. Güleç (Executive Vice President), Z. M. Çoktan (Executive Vice President), Ö. Sucu (Manager)

Disclaimer

The ratings revised by JCR Eurasia Rating are a reflection of the Company's independent audit reports prepared in conformity with Turkish Financial Reporting Standards (TFRS) and International Financial Reporting Standards (IFRS), on and off-balance sheet figures, general market conditions in its fields of activity, unaudited financial statements, information and clarifications provided by the Company, and non-financial figures. Certain financial figures of the Company for previous years have been adjusted in line with the JCR Eurasia Rating's criteria.

The Company's balance sheet composition, asset quality, risk management practices, business profile, liquidity management, history in the sector, profitability figures, revenues, debt structure, growth rates, off-balance sheet commitments, and the financial and non-financial positions of the main shareholders were taken into consideration while determining the risk assessment of the long-term international local currency and foreign currency ratings as well as national ratings.

Considering the fact that there are no additional legal or financial collateral guarantees provided separately for the repayment of the bonds issued, the note assigned for the TRY dominated bond issuance is assigned as the same as the Company's Long and Short-Term National Local Ratings, unless otherwise stated.

Previous rating results and other relevant information can be accessed on www.jcrer.com.tr

This rating report has been composed within the methodologies registered with and certified by the SPK (CMB-Capital Markets Board of Turkey), BDDK (BRSA-Banking Regulation and Supervision Agency) and internationally accepted rating principles and guidelines but is not covered by NRSRO regulations.

JCR Eurasia Rating
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