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Fitch Affirms 2 Turkish Independent Factoring Companies Ratings Endorsement

Policy

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Fitch Ratings-London/Warsaw-25 April 2014: Fitch Ratings has affirmed Lider Faktoring Hizmetleri A.S.'s (Lider) and Optima Faktoring Hizmetleri A.S.'s (Optima) National Long-term ratings at 'A(tur)' and 'BBB(tur)', respectively. The Outlook is Stable.

KEY RATING DRIVERS

The National ratings reflect Lider's and Optima's limited market positions, both within the Turkish financial system and within the highly-competitive and fragmented factoring sector which is dominated by bank-owned subsidiaries. The ratings also reflect low levels of absolute capital, fairly high leverage ratios given the highly confidence-sensitive funding structures typical of non-bank, non-deposit-taking financial institutions. Both companies manage liquidity prudently, ensuring that unutilised committed funding lines are substantial. The ratings also reflect a high degree of earnings volatility, impacted by business volume swings, intense competition and a rather difficult operating environment.

Lider and Optima report receivables/equity ratios well below the generous 30x limit imposed by regulators. Gross receivables/equity at Lider and Optima at end-2013 stood respectively at 6.2x and 5.11x, roughly in line with the sector average of 5.3x. The sector average is, however, distorted by bank-owned factoring subsidiaries in Turkey, which represent around 70% of sector assets and tend to operate at much higher leverage. Independent factoring companies, such as Lider and Optima, are more dependent on maintaining wider capital buffers to see them through potential liquidity constraints, should these arise. Lider and Optima manage their respective liquidity positions carefully; unutilised committed funding lines can be ample and reached 83.7% and 70.5%, respectively, of non-equity funding at end-2013.

Optima's rating also reflects the company's higher risk appetite than Lider due to its focus on the smaller, and higher-risk segment of the SME sector. Optima's above-average margins have so far compensated for higher risk profile of its customers. Fitch views its higher risk appetite a negative rating driver, particularly when combined with Optima's size and low operating efficiency. Its costs to average assets ratio was 9.3% in 2013 (sector average: 3.5%).

Improvements in asset quality at Optima, with impaired receivables falling to 2.4% at end-2013 (2012: 11.2%), were driven by the sale of non-performing loans equivalent to 81% of end-2012 stock of NPLs. Had these assets not been sold, Optima's impaired loans ratio would have remained at a high 11.1%.

Lider's rating reflects its position as a leading independent factoring company- albeit with a limited share of total factoring sector turnover. The rating also considers its stronger-than-sector average asset quality ratios despite employing more conservative impairment recognition policies.

The rating also considers Lider's access to longer-term funding, provided by its partner and 9.9% minority shareholder, Credit Suisse Investments (Netherlands) B.V., part of Credit Suisse Group AG (A/Stable). Related-party, longer-term funding represents around 45% of funding at Lider. While it improves the stability of Lider's funding profile, it also raises concentration risks and reduces somewhat the flexibility to adjust to changing business conditions. Lider's funding structure, which includes a higher share of long-term funding, means that its margins are negatively impacted during periods of falling interest rates (as was the case in

1H13). Under the current high rate environment, Lider's margins should improve as it quickly re-prices new business and makes better use of its funding lines.

Like other peers, liquidity at Lider and Optima is limited. Both companies maintain significant positive gaps between maturing assets and liabilities and have a well-established track record in managing potential mismatches. In the event that these were to arise, they could fund these gaps with equity. While this would reduce levels of free capital, the sound track record in asset and liability management policies established by Lider and Optima help mitigate against this risk. At Lider, fixed assets represent around 22.5% of equity. This represents an additional erosion of free capital.

Optima's ratings also consider the required increase in paid-in share capital to meet regulatory minimum requirements. By end-2015, shareholders must raise additional TRY2.5m capital to meet the TRY20m minimum requirement.

RATING SENSITIVITIES

Both Lider and Optima's ratings are sensitive to a weakening of capital adequacy and leverage ratios. Both companies operate with small capital in absolute terms, making them vulnerable to worsening asset quality, which could give rise to asset and liability mismatches and other shocks.

Upward potential on the ratings is limited given the companies' small size, considerable shifts in balance sheet volumes, volatile results and a competitive operating environment. The ratings are also sensitive to changes to the Turkish economic environment.

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Applicable criteria, 'Global Financial Institutions Rating Criteria' dated 31 January 2014, and 'National Scale Ratings Criteria' dated 30 October 2013 are available at www.fitchratings.com.

Applicable Criteria and Related Research:

Global Financial Institutions Rating Criteria
National Scale Ratings Criteria

Additional Disclosure

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