MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Ekspo Faktoring's ratings at B2; Outlook stable

Global Credit Research - 28 Apr 2016

London, 28 April 2016 -- Moody's Investors Service has today affirmed the local and foreign currency corporate family and issuer ratings of Ekspo Faktoring A.S. (Ekspo) at B2. The outlook on the ratings was changed to stable from negative. Ekspo's national scale long-term issuer rating (NSR) was also affirmed at Ba1.tr.

RATINGS RATIONALE

The primary drivers for the stable outlook are Ekspo's improving profitability, the reduced funding and liquidity risks and the improved asset quality. The affirmation of Ekspo's ratings also reflects the strong and consistently rising capitalisation.

--- GRADUALLY IMPROVING PROFITABILITY

Ekspo's profitability has increased and compares favourably with the average for the factoring sector. Net profitability at year-end 2015 was about 6% higher than the previous year, with a further improvement in the first quarter of 2016. Net profitability was equal to TRY10.4 million at year-end 2015, or 3.6% of annual net income-to-average assets, compared with 3.4% at year-end 2014 and 3% at year-end 2013. The company's pre-provision income over average assets also increased, reaching 5.4% at year-end 2015 from 4.8% at year-end 2014 and 4.5% at year-end 2013. Despite the competitive factoring sector in Turkey, Ekspo's profitability has been gradually improving, supported by its innovative and diversified product offerings and disciplined cost management.

Ekspo adjusted its cost base, resulting in a lower cost-to-income ratio of 39.8% at year-end 2015 compared with 41.6% the previous year, indicating that the bank's operating expenses were growing less than its revenue generation in 2015.

--- REDUCED FUNDING AND LIQUIDITY RISKS

Moody's notes Ekspo's risks associated with the high dependence on short-term wholesale funding. However, these risks have been partly mitigated by the company's ability to (1) eliminate maturity gaps between liabilities and assets (on a monthly basis) and (2) increase its level of cash holdings at 2% of total assets at year-end 2015, compared to 0.1% the previous year. As a non-bank financial institution, Ekspo does not have access to the Central Bank of Turkey's liquidity, in case of need.

Additionally, while the amount of credit lines provided to Ekspo is fairly ample and also includes international export-import agencies, Moody's notes that the three largest counterparties accounted for a high 74% of total bank lines in use at year-end 2015, thus resulting in a relatively high concentration risk.

--- STRONG AND CONSISTENTLY RISING CAPITALISATION

Moody's notes that Ekspo's capital position continues to rise and provides good loss-absorption capacity in case of need. Moody's also observes that Ekspo's equity-to-total assets ratio reached 33.8% at year-end 2015, which compares favourably with the system average of 17.2% (system average includes bank-affiliated factoring companies, which implies access to a bank parent as a source of capital strength).

--- IMPROVED ASSET QUALITY, BUT RELATIVELY HIGH BORROWER CREDIT CONCENTRATION REMAINS A RISK

Ekspo's asset quality has shown an improving trend, largely driven by non-performing loans (NPLs) sales. The NPLs-to-gross loans ratio was at 1.5% at year-end 2015, compared with the 2.1% reported at year-end 2014 and 3% at year-end 2013. Ekspo's NPL ratio compares well with the average for the factoring sector in Turkey of 5.7% at year-end 2015.

At the same time, Moody's notes that Ekspo maintains a relatively large single-name credit concentration when measuring the top 20 exposures to its equity, although this risk is somewhat mitigated by the short maturity (average of about three months) of Ekspo's loan portfolio.

--- RATING OUTLOOK

As a reflection of the aforementioned improvements in profitability, liquidity and asset quality, and the expectation that the issuer will continue to maintain strong capitalisation, we have changed the outlook to stable from negative. The current B2 ratings, with a stable outlook, also considers that Ekspo will continue to face challenges in gradually expanding its franchise in Turkey's volatile operating environment.

WHAT COULD MOVE THE RATINGS DOWN / UP

Downward pressure could develop on Ekspo's ratings if (1) asset quality and profitability deteriorate; (2) credit risk in Turkey generates losses that put solvency at risk and jeopardises the company's current business model; (3) financial leverage increases significantly without simultaneously raising matched funding; and (4) the company's franchise weakens substantially.

Upwards rating pressure could, however, develop following (1) improvement in the diversification of the funding profile; (2) significant strengthening of the franchise and relative market share; and (3) decreasing borrower credit concentration.

National Scale Rating (NSR)

The Ba1.tr National Scale Rating (NSR) is derived directly from the local currency issuer rating. Therefore, the direction of the change in the long-term ratings will influence any future adjustment in these ratings.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Finance Companies published in October 2015. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

Moody's National Scale Credit Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale credit ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".za" for South Africa. For further information on Moody's approach to national scale credit ratings, please refer to Moody's Credit rating Methodology published in June 2014 entitled "Mapping Moody's National Scale Ratings to Global Scale Ratings".

LIST OF AFFECTED RATINGS

Affirmations:

....LT Corporate Family Rating (Foreign Currency and Local Currency), Affirmed at B2

....LT Issuer Rating (Foreign Currency and Local Currency), Affirmed at B2

....NSR LT Issuer Rating (Local Currency), Affirmed at Ba1.tr

Outlook Actions:

....Outlook, Changed to Stable from Negative

REGULATORY DISCLOSURES

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