Factoring in Turkey

Çağatay Baydar
General Manager of TEB Faktoring A.Ş.
Vice Chairman of FCI
Factoring in Turkey

• First factoring company established in 1990

• Today; around 75 factoring companies

• Minimum capital requirement TL 5 Trio (EUR 2,5 mio)

• 45 members in “Turkish Factoring Association”

• Under supervision of Banking Regulatory and Supervisory Agency
Factoring in Turkey

- Domination of domestic factoring

- “a funding facility” backed by S/T post-dated checks and promissory notes
  - Banking transaction

- A “with recourse business” yielding a high profit margin in domestic market

- 2nd biggest exporting country in FCI

- A “without recourse business” yielding a reasonable spread in export factoring
Factoring in Turkey

• Corporate and commercial clients as target segment in domestic

• High competition between factoring co.’s and banks

• Lack of a solid legal framework to protect factors, sellers and buyers.

• Lack of credit insurance

• Domination of bank factoring companies
Growth of factoring

- Markets start with Full Service Factoring in export transactions

- **Grow with Invoice and Check Discounting in domestic market**

- Become mature with asset based lending
Product expansion: General trends

- USA
- UK
- I, F, G
- Int’l ABL
- Real Estate
- Equipment & Machinery
- Purchase order financing
- Inventory financing
- Cross border A/R financing
- Reverse factoring / SCF
- Undisclosed factoring / ID
- International (Import / Export)
- Domestic full disclosed factoring

Complexity

Other West EU
Turkey
CEE

Trade A/R Financing
Asset Based Lending

Time
Turkey and FCI – 2008

Turkey: 1%

Others: 99%
Two factor export volume in FCI – 2008

Turkey is the 2nd!
Turkey export turnover per years
Factoring sector and penetration in Turkey

Average growth per year (2000-2009) : 22.44%

(Bio USD) (%)

Turkish Factoring Sector
Penetration in Turkey

2.9% 2.7% 2.8% 2.9% 3.7% 4.1% 5.0% 4.4% 28.6 25.4 3.5% 3.6%

5.9 3.6 4.5 6.7 10.7 14.0 19.7 24.0
## Domestic / international turnover split – 2008

<table>
<thead>
<tr>
<th></th>
<th>Mio USD</th>
<th>Turkey</th>
<th>%</th>
<th>FCI</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>21,516</td>
<td>85</td>
<td></td>
<td>908,221</td>
<td>82</td>
</tr>
<tr>
<td>International</td>
<td>3,935</td>
<td>15</td>
<td></td>
<td>201,683</td>
<td>18</td>
</tr>
<tr>
<td>Total</td>
<td>25,451</td>
<td>100</td>
<td></td>
<td>1,109,904</td>
<td>100</td>
</tr>
</tbody>
</table>
## Consolidated industry balance sheets – June 2009

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>Jun. 08</th>
<th>Dec. 08</th>
<th>Mar.09</th>
<th>Jun.09</th>
<th>Jun. 08 / 09 Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivables</td>
<td>5,1</td>
<td>6,2</td>
<td>7,5</td>
<td>5,6</td>
<td>5,4</td>
<td>6,5</td>
<td>-12.7</td>
</tr>
<tr>
<td>NPL</td>
<td>0,1</td>
<td>0,3</td>
<td>0,4</td>
<td>0,5</td>
<td>0,6</td>
<td>0,5</td>
<td>44.3</td>
</tr>
<tr>
<td>Provisions Provided</td>
<td>0,1</td>
<td>0,2</td>
<td>0,3</td>
<td>0,4</td>
<td>0,4</td>
<td>0,4</td>
<td>39.9</td>
</tr>
<tr>
<td>Banks</td>
<td>0,6</td>
<td>0,4</td>
<td>0,3</td>
<td>1,1</td>
<td>0,7</td>
<td>1,0</td>
<td>182.3</td>
</tr>
<tr>
<td>Total Assets</td>
<td>6,3</td>
<td>7,6</td>
<td>8,7</td>
<td>7,8</td>
<td>7,2</td>
<td>8,4</td>
<td>-3.6</td>
</tr>
<tr>
<td>Bank Borrowings</td>
<td>4,2</td>
<td>4,9</td>
<td>6,1</td>
<td>4,9</td>
<td>4,5</td>
<td>5,7</td>
<td>-6.0</td>
</tr>
<tr>
<td>Equities</td>
<td>1,8</td>
<td>2,0</td>
<td>2,3</td>
<td>2,4</td>
<td>2,4</td>
<td>2,4</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Source: BRSA Financial Markets Report
### Consolidated industry income statements – June 2009

<table>
<thead>
<tr>
<th>(Mio TL)</th>
<th>2006</th>
<th>2007</th>
<th>Jun. 08</th>
<th>Dec. 08</th>
<th>Mar.09</th>
<th>Jun.09</th>
<th>Jun. 08 / 09 Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factoring Incomes</td>
<td>1.021,2</td>
<td>1.530,8</td>
<td>816,2</td>
<td>1.756,9</td>
<td>352,9</td>
<td>658,6</td>
<td>-19.3</td>
</tr>
<tr>
<td>Factoring Revenues</td>
<td>1.015,0</td>
<td>2.203,3</td>
<td>715,6</td>
<td>1.926,2</td>
<td>679,3</td>
<td>1.067,1</td>
<td>49.1</td>
</tr>
<tr>
<td>Factoring Expenses</td>
<td>503,9</td>
<td>619,5</td>
<td>348,9</td>
<td>808,1</td>
<td>138,6</td>
<td>254,8</td>
<td>-27.0</td>
</tr>
<tr>
<td>Expenses Other Than</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Factoring Expenses</td>
<td>874,1</td>
<td>2.285,0</td>
<td>724,9</td>
<td>1.838,3</td>
<td>676,5</td>
<td>1.022,9</td>
<td>41.1</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>205,7</td>
<td>264,7</td>
<td>165,0</td>
<td>345,4</td>
<td>83,7</td>
<td>153,2</td>
<td>-7.2</td>
</tr>
<tr>
<td>Tax Provisions</td>
<td>61,0</td>
<td>78,0</td>
<td>19,4</td>
<td>53,3</td>
<td>12,7</td>
<td>35,1</td>
<td>81.1</td>
</tr>
<tr>
<td>Net Income</td>
<td>490,8</td>
<td>426,6</td>
<td>200,2</td>
<td>439,6</td>
<td>52,7</td>
<td>157,5</td>
<td>-21.3</td>
</tr>
</tbody>
</table>

**Source:** BRSA Financial Markets Report
### Industry ratios – June 2009

<table>
<thead>
<tr>
<th>(Mio TL)</th>
<th>2006</th>
<th>2007</th>
<th>Jun. 08</th>
<th>Dec. 08</th>
<th>Mar.09</th>
<th>Jun.09</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Share within Non-banking Financial Sector (%)</td>
<td>32,2</td>
<td>30,0</td>
<td>30,8</td>
<td>26,3</td>
<td>24,9</td>
<td>29,2</td>
</tr>
<tr>
<td>Receivables / Equities</td>
<td>2,9</td>
<td>3,1</td>
<td>3,2</td>
<td>2,4</td>
<td>2,3</td>
<td>2,7</td>
</tr>
<tr>
<td>ROE</td>
<td>27,9</td>
<td>21,3</td>
<td>8,8</td>
<td>18,5</td>
<td>2,2</td>
<td>6,6</td>
</tr>
<tr>
<td>ROA</td>
<td>7,8</td>
<td>5,6</td>
<td>2,3</td>
<td>5,6</td>
<td>0,7</td>
<td>1,9</td>
</tr>
<tr>
<td>NPL (%)</td>
<td>2,7</td>
<td>4,0</td>
<td>4,6</td>
<td>8,2</td>
<td>9,8</td>
<td>7,4</td>
</tr>
<tr>
<td>Provisions Ratio (%)</td>
<td>92,1</td>
<td>87,0</td>
<td>82,1</td>
<td>77,0</td>
<td>75,5</td>
<td>79,6</td>
</tr>
</tbody>
</table>

Source: BRSA Financial Markets Report
## Industry operationals details – June 2009

<table>
<thead>
<tr>
<th>Unit</th>
<th>2006</th>
<th>2007</th>
<th>Jun. 08</th>
<th>Dec. 08</th>
<th>Mar.09</th>
<th>Jun.09</th>
<th>Jun. 08 / 09 Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Companies</td>
<td>81</td>
<td>82</td>
<td>77</td>
<td>77</td>
<td>79</td>
<td>75</td>
<td>-2 (unit)</td>
</tr>
<tr>
<td>Number of Branches</td>
<td>3</td>
<td>16</td>
<td>25</td>
<td>20</td>
<td>23</td>
<td>23</td>
<td>-2 (unit)</td>
</tr>
<tr>
<td>Number of Regions</td>
<td>147</td>
<td>119</td>
<td>119</td>
<td>128</td>
<td>113</td>
<td>100</td>
<td>-19 (unit)</td>
</tr>
<tr>
<td>Number of Staff</td>
<td>2,425</td>
<td>2,912</td>
<td>3,127</td>
<td>3,009</td>
<td>2,879</td>
<td>2,689</td>
<td>-438 (unit)</td>
</tr>
<tr>
<td>Number of Clients</td>
<td>v.y.</td>
<td>v.y.</td>
<td>65,215</td>
<td>50,228</td>
<td>51,378</td>
<td>35,493</td>
<td>-45,6 (unit)</td>
</tr>
<tr>
<td>Number of Signed Agreements</td>
<td>v.y.</td>
<td>v.y.</td>
<td>127,558</td>
<td>146,558</td>
<td>99,503</td>
<td>72,639</td>
<td>-43,1 (unit)</td>
</tr>
</tbody>
</table>

Source: BRSA Financial Markets Report
Market outlook – 2009

- Unfavourable market conditions for all factoring companies
- Domestic factoring turnover decreased by 24% in the first half of 2009
- Export factoring turnover increased by 30% in the first half of 2009
- Less factoring co.’s active in market;
  - Less liquidity in the market
  - Bad debts increasing
The new law imposed by BRSA has not been approved yet.
   Still in process and under discussion.

The tax department of Turkey is implementing heavy tax controls on 75 factoring companies (all industry) to raise extra charges to nett – off the budget deficit.
   Provisions for bad debts
   Discounting charges (accruals)
   Many law suits will follow!

BRSA cancelled license of some factoring companies.
   The total number is now 75. (It was 84).
Market outlook – 2009

• There are problems noted in terms of “demand” and in terms of “funding facilities” concerning Turkish exporters.

• Increasing importance of some new markets:
  - Azerbaijan, Algeria, China, Qatar, Kazakhstan, Egypt, Uzbekistan, Russia, UAE, Turkmenistan, Ukraine.
  - The share of Europe is decreasing, Middle-East increasing

• There is a need for pre-export funding or pre-shipment funding

• There is an increase in cost of funding!
Market outlook – 2009

- Accounts receivable collection period is getting longer; accounts payable and bank borrowings maturities are getting shorter!

- Losses on open accounts receivables are increasing!

- Problems noted on credit covers given by banks and factoring companies.

- Due to the lack of government incentives and the competitor countries performance (India, Bangladesh, Indonesia etc.) Turkish exporters are loosing market share; especially in textile industry.
Conclusion

• Today, funding and credit protection have more importance than yesterday

• There is a definite need to increase FCI network concerning the new markets; such as Middle-East etc.

• There is a need for:
  ▪ Supply chain finance/purchase order management or pre-export funding for credit protection.
  ▪ The stability and the service quality of the import factors are extremely important than ever.

“The use of factoring will increase and factoring will be a more widely used financial instrument in near future”
Thank you