

Alternatif Finansal Kiralama AS

Update

Ratings

Foreign Currency

Long-Term IDR	BBB-
Short-Term IDR	F3

Local Currency

Long-Term IDR	BBB-
Short-Term IDR	F3

National

Long-Term Rating	AAA(tur)
Support Rating	2

Sovereign Risk

Long-Term Foreign-Currency IDR	BB+
Long-Term Local-Currency IDR	BBB-
Country Ceiling	BBB-

Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable
National Long-Term Rating	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Financial Data

Alternatif Finansal Kiralama AS

	31 Dec 17	31 Dec 16
Total assets (USDm)	453	397
Total assets (TRYm)	1,709	1,397
Total equity (TRYm)	164	139
Operating profit (TRYm)	27	27
Published net income (TRYm)	24	23
Operating ROAA (%)	1.7	2.1
Operating ROAE (%)	17.9	20.9
Growth of net receivables (%)	30.8	19.1
Impaired receivables/gross receivables (%)	3.7	5.5
Internal capital generation (%)	17.5	19.5
Debt/tangible equity (x)	9.1	8.6
Equity/assets (%)	9.6	10.0

Related Research

[Turkey – March 2018 Global Economic Outlook Forecast \(March 2018\)](#)

[Alternatifbank A.S. - Ratings Navigator \(February 2018\)](#)

[Fitch Affirms 6 Small Foreign-Owned Turkish Banks \(January 2018\)](#)

[Fitch Affirms Turkey at 'BB+'; Outlook Stable \(January 2018\)](#)

Analysts

Ahmet Kilinc
+44 20 3 530 1272
ahmet.kilinc@fitchratings.com

Aurelien Mourgues
+44 20 3530 1855
aurelien.mourgues@fitchratings.com

Key Rating Drivers

IDRs Equalised with Parent: Alternatif Finansal Kiralama AS's (Alternatif Lease) Issuer Default Ratings (IDRs) are driven by potential support from its 100% owner, Alternatifbank A.S. (Alternatif Bank, BBB-/Stable). Fitch Ratings considers Alternatif Lease to be a core subsidiary of Alternatif Bank, based on the entities' shared branding and integration, and Alternatif Lease's role as the sole provider of leasing products within the group.

Alternatif Bank's own support-driven ratings reflect potential support from its parent, The Commercial Bank (P.S.Q.C.) (CBQ; A/Negative). Fitch believes that support for Alternatif Lease would ultimately also be forthcoming from CBQ (via Alternatif Bank), if needed.

Moderate Cost of Support: Supporting Alternatif Lease would represent a manageable burden for Alternatif Bank, as it only accounted for 8% of consolidated assets at end-2017.

Above-Average Growth: Alternatif Lease's receivables growth (2017: 31%; sector: 18%) is likely to remain above average in 2018 (company forecast: 23%), reflecting a partial refocus on larger commercials – in line with Alternatif Bank's strategy – and additional capital support from its parent to fund growth. Alternatif Lease had a 3% market share of sector leases at end-2017.

High Leverage: Debt/tangible equity is above average and has deteriorated to a high 9.1x at end-2017 (end-2016: 8.6x), reflecting high growth and the depreciation of the Turkish lira in 2017. Leverage drops to 7.9x adjusted for a TRY50 million cash capital increase (end-2017: 31% of equity) from Alternatif Bank – planned for 2018 – and management expectations of a TRY15 million (9%) hit from additional general provisions due to IFRS 9 enforcement in 1Q18.

Improving Headline NPL Ratio: Non-performing loans (NPLs, leases overdue by 90 days) dropped to 3.7% of total leases at end-2017 (end-2016: 5.5%), reflecting high growth base effect and TRY18 million of NPL sales (27% of end-2016 NPLs) in 2017. Net NPLs/ equity ratio (20%) is above average, reflecting relatively low specific reserves coverage (46%) and reliance on collateral. Fitch believes high growth could bring credit losses as the leases season.

Concentrated, Foreign-Currency Leases: A high 74% of net leases were foreign-currency denominated at end-2017 in line with the sector, heightening credit risk in light of local-currency depreciation. Single-name concentration is high as the top 25 exposures made up 29% of total leases (2.8x equity) at end-2017. The lease book is concentrated on the risky construction (20% of leases), manufacturing (17%), textile (16%) and metal (15%) sectors.

Decent Performance: ROAE (2017: 16%) has outperformed group metrics since end-2014, partly reflecting higher leverage and volume growth. Sound cost-efficiency and moderate impairment charges support operating profitability, but operating profit/average assets remains modest (2017: 1.7%), dampened by Alternatif Lease's fairly narrow margin of 3.1% (2016: 3.4%).

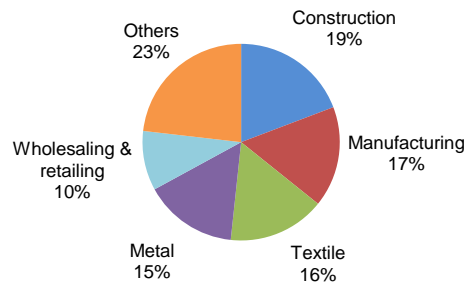
FC Wholesale Funded: Funding was split 84%/16% between bank loans and local-currency short-term bonds, respectively, at end-2017. Interbank borrowings are almost entirely in foreign currency (95%) and include stable funding from related-parties (18% of total funding). Funding is mainly short-term (59%), but refinancing risk is mitigated by the presence of Alternatif Bank.

Rating Sensitivities

Parent Support: Any change in Fitch's view of Alternatif Bank's propensity or ability to support its subsidiary would result in a downgrade of Alternatif Lease's IDRs.

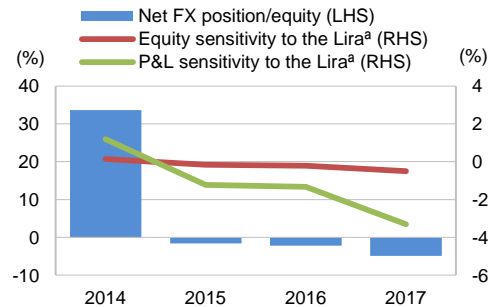
- The Turkish leasing sector is fairly underdeveloped compared with the banking sector as a whole. Leasing sector assets accounted for just 1.8% of total banking sector assets at end-2017.
- At end-2017, the lease book was mainly split between construction (26%), production (26%) and textile (15%) machineries. An additional 19% came from real estate (almost all sale and leaseback transactions).
- A 1% upward/downward change in interest rates would have resulted in a small 2% decrease to Alternatif Lease's equity.
- Alternatif Lease's net open currency position was a moderate 5% of total equity at end-2017.
- Margins could narrow further given that growth is set to focus on lower-yielding, albeit larger and less risky, commercial clients in line with Alternatif Bank.
- A moderate 2.8% of leases were overdue by more than 90 days at end-2017.
- The monthly amortising repayment structure of leases means asset-quality problems are quickly detected.
- The equity/assets ratio (9.6%) is above the 3% regulatory minimum. Profit retention policy is likely to support Alternatif Lease's equity base.
- Interbank loans, aside from those sourced from related parties, are mostly from Turkish banks and their foreign subsidiaries.
- Alternatif Lease runs a TRY157 million liquidity gap up to one year, but this is mitigated by potential liquidity support from Alternatif Bank.

Lease Portfolio by Industry End-2017



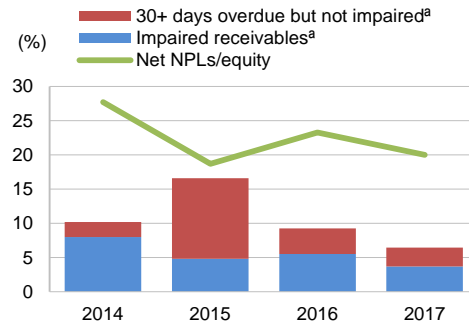
Source: Company data, adapted by Fitch

FX Position



^a Impact from a 10% depreciation of the Lira against other foreign currencies
Source: Company data, adapted by Fitch

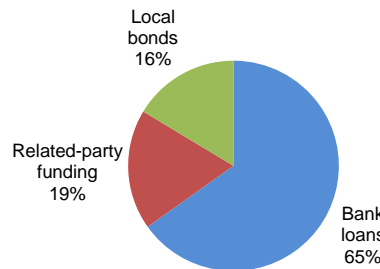
Asset Quality Metrics



^a As % of gross lease receivables
Source: Company data, adapted by Fitch

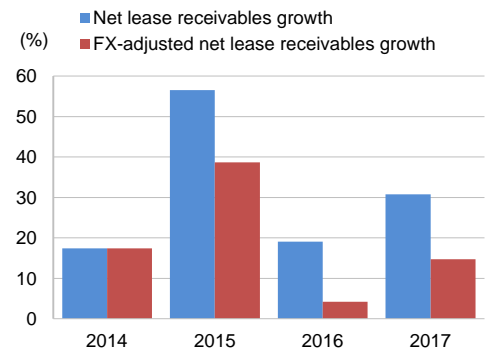
Funding Breakdown

(% of total interest bearing liabilities, end-2017)



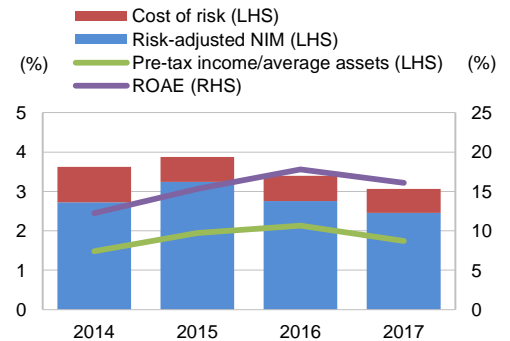
Source: Company data, adapted by Fitch

Key Growth Metrics



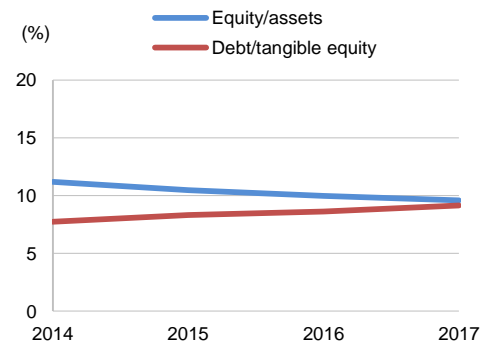
Source: Company data, adapted by Fitch

Profitability



Source: Company data, adapted by Fitch

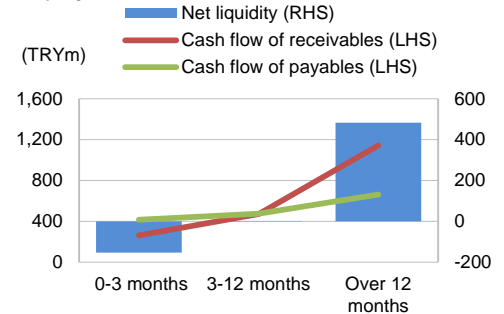
Capitalisation & Leverage



Source: Company data, adapted by Fitch

Liquidity Gap

End-2017



Source: Company data, adapted by Fitch

Related Criteria

[Global Non-Bank Financial Institutions Rating Criteria \(March 2017\)](#)

Alternatif Finansal Kiralama AS

(TRYm, IFRS accounting standards)

As of 31 December	2014	2015	2016	2017
Income statement				
Revenue				
Operating lease & rental income				
Financial lease income	54	73	87	115
Commission income				
Interest income on loans				
Gains on vehicle sales, net				
Interest income (other)	1	1	1	1
Valuation gain				
Other revenue	4	2	7	4
Total revenue	59	76	96	120
Expenses				
Revenue generating equipment depreciation				
Interest expense	32	40	48	70
Direct operating expenses	11	12	13	14
SG&A expenses				
Impairment charges	6	5	8	9
Fees & commission expenses				
Valuation loss				
Other expenses				
Total expenses	49	58	69	93
Equity accounted profit				
Income before taxes	10	18	27	27
Income tax	1	3	4	3
Non-recurring items				
Net income	9	15	23	24
Memo: Weighted average common shares outstanding (in 000)	28,463	28,504	50,000	50,000
Memo: Dividends related to the period	-	-	-	-

Source: Fitch

Alternatif Finansal Kiralama AS

(TRYm, IFRS accounting standards)

As of 31 December	2014	2015	2016	2017
Balance sheet				
Assets				
Cash & equivalents	6	32	99	49
Restricted cash				
Revenue generating equipment				
Operating lease and rental fleet				
Net investment in lease	637	1,010	1,196	1,573
Debtors in leasing activities				
Other corporate & commercial loans				
Other consumer loans				
Other loans				
Less: Reserves for impaired loans	33	29	37	28
Total net loans	659	1,031	1,228	1,606
Total gross loans	692	1,061	1,265	1,634
Memo: Impaired loans included above	55	51	69	60
Derivatives	1			
At equity investments in associates				
Trade receivables				
Foreclosed assets				
Goodwill & intangibles	1	1	1	1
Other deferred assets				
Deferred tax assets	23	20	16	13
PP&E	2	1	0	1
Other assets	22	29	53	38
Total assets	714	1,114	1,397	1,709
Liabilities				
Secured debt				
Unsecured debt (short-term)	370	826	905	874
Unsecured debt (long-term)	244	138	289	611
Total interest bearing liabilities	614	965	1,194	1,486
Accounts payable & accrued expenses	9	14	40	28
Current tax liabilities				
Deferred taxes				
Other deferred liabilities				
Other liabilities	10	19	24	32
Total liabilities	633	997	1,258	1,545
Total shareholders' equity	80	116	139	164
Total liabilities & shareholders' equity	712	1,114	1,397	1,709

Source: Fitch

Alternatif Finansal Kiralama AS

(TRYm, IFRS accounting standards)

As of 31 December	2014	2015	2016	2017
Key ratios				
Operating profit/average assets (%)	1.5	1.9	2.1	1.7
Operating profit/average equity (%)	12.9	18.1	20.9	17.9
Operating margin (%)	16.5	23.5	28.0	22.5
Pre-tax income/average assets (%)	1.5	1.9	2.1	1.7
Return on average assets (%)	1.4	1.6	1.8	1.6
Return on average equity (%)	12.2	15.3	17.8	16.1
Risk adjusted operating return on average assets (%)	2.3	2.5	2.7	2.3
Risk adjusted operating return on average equity (%)	20.3	23.7	26.9	23.9
Risk adjusted return on average net operating revenue (%)	52.1	70.8	72.6	73.3
Operational expenses/net revenue	116.1	68.6	48.3	51.1
Impairment charges/pre-impairment operating profit	36.5	23.5	22.1	25.1
Dividends paid and declared/net income	-	-	-	-
Total debt/equity (x)	7.7	8.3	8.6	9.1
Net debt/equity (x)	7.6	8.0	7.9	8.8
Total liabilities/total equity (x)	7.9	8.6	9.0	9.4
Total debt/tangible equity (x)	7.7	8.3	8.6	9.1
Tangible equity/tangible assets (x)	11.1	10.4	9.9	9.5
Equity/assets (x)	11.2	10.5	10.0	9.6
Net interest margin (%)	3.6	3.9	3.4	3.1
Risk-adjusted net interest margin (%)	2.7	3.2	2.8	2.5
Cost of borrowing (%)	5.3	4.2	4.0	4.7
Lease yield (%)	8.5	7.2	7.3	7.3

Source: Fitch

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2018 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.