

Corporate Credit & Issue Rating

NON BANKING FINANCIAL INSTITUTIONS  
NPL Asset Management Companies

MEGA VARLIKYÖNETİM		Long Term	Short Term	
International	Foreign Currency	BBB-	A-3	
	Local Currency	BBB-	A-3	
	Outlook	FC	Stable	Stable
		LC	Stable	Stable
Issue Rating	n.a.	n.a.		
National	Local Rating	BBB+(Trk)	A-2(Trk)	
	Outlook	Positive	Stable	
	Issue Rating	BBB+(Trk)	A-2(Trk)	
Sponsor Support		2	-	
Stand Alone		BC	-	
Sovereign*	Foreign Currency	BBB-	-	
	Local Currency	BBB-	-	
	Outlook	FC	Stable	-
		LC	Stable	-

Mega Varlık Yönetim A.Ş.		
Financial Data	1Q2016**	2015*
Total Assets (000 USD)	32,593	19,482
Total Assets (000 TRY)	92,073	56,647
Equity (000 TRY)	31,529	26,381
Pre Tax Profit (000 TRY)	6,340	7,979
Net Profit (000 TRY)	5,148	6,381
Interest Income (000 TRY)	7,033	9,244
Equity / T. Assets (%)	34.24	46.57
Market Share (%)	n.a.	n.a.
Purchased Cost / Purchased Loans (x)	65.33	80
Purchase Cost / Collections (x)	2.08	1.67
Operating Expenses / Collections	5.3	8.46
Growth Rate (%)	62.54	n.a.

\*End of the Year; \*\*Unaudited Figures

**Company Overview**

**Mega Varlık Yönetim Anonim Şirketi** (hereinafter referred to as "Mega Varlık" or the "Company"), was established as of March, 2015 started its operations as of August 2015, operates as one of twelve asset management companies authorized by the Banking Regulation and Supervision Agency (BRSA) to acquire distressed and non-performing loans of banks and other financial institutions in Turkey and converting these assets into cash at optimum values and maximize the values of these assets.

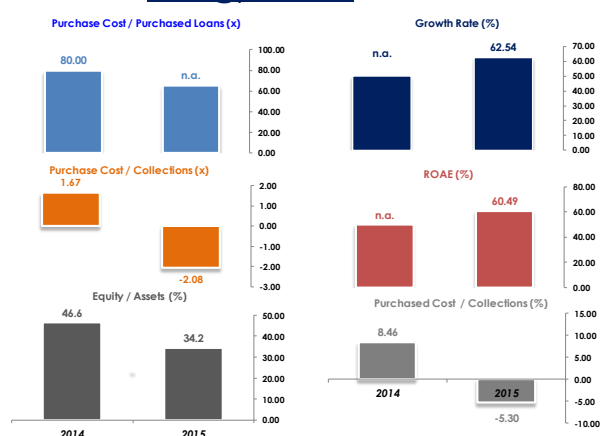
The Company is headquartered in Istanbul, had a staff force of 11 as of March 31, 2016. The Company's real person shareholding structure covers 5 individuals. The main controlling shareholder, who also hold majority shares in WRE Biofuel and United Fuel Supply, a leading institution in USA operating in the energy sector, Mr. Jacob Ortell Kingston (99.99%) as of March 31, 2016.

The Company's Long Term National Rating and outlook perspective have been assigned as **"BBB+(Trk) / Positive"**

\*Affirmed by Japan Credit Rating Agency, JCR on August 28, 2015

Chief Analyst: Orkun İNAN / +90 212 352 56 73

orkuni@jcrer.com.tr



**Strengths**

- Positive shareholders support strengthening the Company's growth phase in terms of both balance sheet and financial position,
- Sound cash flow generation capacity thanks to current portfolio,
- Effectiveness in analysis and portfolio valuations leading to qualified receivables collection management regarding risk monitoring and collection,
- Sound equity to total assets level outstripping the sector average,
- High growth potential of the sector and company base efficiency triggering profitability ratios thanks to boutique-style NPL portfolio,
- Qualified and risk oriented finance and law management team,
- Favourable tax advantages contributing competitive position with regard to cost management supporting the bottom line.

**Constraints**

- Not having a long track record as a natural consequence of being a start-up company,
- Low level of compliance with Corporate Governance Principals, despite continuing activities of process and procedure formation Improvements needed in corporate governance principles,
- Limited cash line and resources squeezing liquidity management,
- Deteriorated TL and downside risks to growth exerting pressure on profit margins and impacts on debt-servicing capabilities of the real sector.

Publication Date: April 29, 2016

"Global Knowledge supported by Local Experience"

## 1. Rating Rationale

Turkish Non-Performing Loan Asset Management Sector (AMCs) has been regulated and supervised by the Banking Regulation and Supervision Agency (BRSA) since 2002 in Official Journal No: 24893 in accordance with the Restructuring of Debts to the Fiscal Sector Law No: 474. Moreover, the Regulation on the establishment and operating principles of asset management companies entered into force on November 01, 2006. Recent legislative regulations reinforced the representative capability and power of the Non-Banking Financial Sector. This legal infrastructure is expected to increase the efficiency of supervision and effectiveness of audit systems in the sector.

Independent audit reports prepared in line with BRSA standards have been deployed for the analysis of financial positions whereas special data sets such as projections and clarifications provided by the Company itself, non-financial figures and sectorial information obtained through studies of JCR Eurasia Rating and research companies such as the BRSA ,Turkey's Central Bank, have been taken into account in JCR Eurasia's rating process belonging to JCR Eurasia Rating have been utilized in the analysis of the sectorial trends.

In the assignment of Mega Varlık Yönetim A.Ş.'s ratings, quantitative and qualitative assessments regarding collection rate, profitability indicators, funding and adequacy of capital, liquidity profile, asset quality, efficiency and risk management practices along with growth strategy have been taken into consideration.

National and international ratings are determined with respect to the Company's asset quality, loan book growth, profitability indicators, interest margin, capitalization level, debt ratio and funding sources on the financial side; risk management system and processes, projections of the management, corporate governance principles and external factors such as macroeconomic outlook and regional developments are integrated into the analysis. Sectorial financial disclosure statements of 2015 are not disclosed by BRSA. 2014 data are used in the sector comparison.

Fundamental Rating Indicators are;

### **Ongoing Business Expansion**

Mega Varlık Yönetim A.Ş.'s growth in the field of asset management and its internal cash generation capacity connected with this process are expected to successfully continue. Mega Varlık has ability to significantly increase

its market presence in case of further improvement its risk management process and maintain its operating profitability. Mega Varlık is expected to sustain sufficient capitalization buffer through its ongoing business growth and shield itself from potential shocks.

### **Insufficient Company History**

Lack of required historical data of at least three years pressures negatively on Mega Varlık's rating action. The Company was founded under BRSA licensing in 1Q2015 and started its operations in 3Q2015.

### **End of Cycle**

The level of cooperation with banks and other financial institutions with the potential to transfer receivables and assets, the high level of creditworthiness of the qualified shareholder, and the services and activities will provide in the areas of consultancy and publicity. The Company's establishment cessation of expenses and the expected high level of cash flows to be generated by increase in its activities. Mega Varlık's expected net interest margin is relatively high in 2016.

### **Positive Shareholders Support**

JCR Eurasia Rating expects that the shareholder from Mr. Jacob Ortell Kingston given its 99.99% ownership in Mega Varlık and will support the Company if required. Mega Varlık's management efforts to enhance its business development in the medium term which will be achieved through capital and cash injections, which will be utilised initially to boost its portfolio size and diversification. Capital injection of TRY50mn. is expected in 2H2016 from shareholders while no dividend payment in the short term.

### **Sound Capitalisation Level**

The ratings of Mega Varlık reflect its strong solvency position supported by foreseeable high profitability and capital retention. Mega Varlık could have met the legal requirements since the beginning of establishment. Mega Varlık's level of equity is expected to reach absolutely stronger than that of some of its main rivals as of December 31,2016.

### **Completion of the Foundation Term**

Mega Varlık Yönetim A.Ş.'s long-term resources, plans for the creation of a structure for the fields of risk management and corporate governance, the Company management's experience and effectiveness and the cessation of the burden on the financial structure due to the completion of the foundation term contribute positively to long term national rating of Mega Varlık.

**Positive Outlook of Turkish NPL AMCs**

Recent regulations defined companies in the sector as "Non-Bank Financial Institutions" and increased the efficiency of supervision and effectiveness of audit systems in the sector. Thanks to the aggravation of establishment requirements for new companies and enhanced professional experience and education levels, the quality of the sector has improved Turkish NPL AMCs. Sector-wide high profitability rates and the high growth potential due to the small size of the Asset Management Companies in the Turkish financial markets triggers the rating formation.

**Liquidity Management Pressuring Manoeuvre Capability**

The Company has not facilities to benefit from amount of free lines as of March,2016. Planning based on foreign resources in place of capital increase in financing growth and low liquidity levels derived from receivables weighted dispersion of initial portfolio acquired exert downward pressure on the rating results of Mega Varlık Yönetim A.Ş. Additionally, the minimum paid-in capital per company in the sector has been increased to TRY 20mn. from TRY10mn. with a compliance deadline of December 31, 2017. On the other hand, the Company's internal equity generation capacity is expected to underpin current equity level in line with the strong profitability in FYE2016.

**Well-Diversified Portfolio and Sound Asset Quality**

The Company's large portion of total assets of Mega Varlık was derived from purchased loans. The Current portfolio of the Company provides sustainable cash generation. The Company's resilient capital and profitability levels are foreseen to be the first line of protection against unexpected losses.

**Collection Rate**

Purchase Cost to Collections ratio stood at 1.67x in FYE2015 while Purchase Cost to Purchased Loans standing at 80x in FYE2015.

**Tax Advantages**

As required by law, NPL Asset Management Companies have tax advantages such as stamp tax, mortar, BITT for 5 years after establishment which have the dual advantages of both lowering operational costs and gaining competitiveness.

**Strong Financial Management Team**

Reduced workload, staged credit process, experienced and well-resourced management team with a conveniently-defined internal control structure were

developed in line with the size of its assets Mega Varlık benefits from its highly qualified senior management who have experience in the fields of finance and law.

**Operational Environment with Uncertainties Rising:**

Continuation of risks to Turkey's external financing capacity due to its widened external funding needs, worsened by the fragility of global capital markets and the high geopolitical problems that Turkey is facing

In this regard, JCR Eurasia Rating has assigned National Local Rating Note of Mega Varlık Yönetim A.Ş. as 'BBB+ (Trk)' in the Long Term and has assigned as 'A-2 (Trk)' in the Short Term National Scale. JCR Eurasia Rating evaluated the Company's International Long and Short Term Local Currency Ratings in line with the Long Term Sovereign Rating outlook of the Republic of Turkey, considering the moderate risk position, continuation and strengthening of profitability indicators, assets quality, the ability to access fund resources, shareholder support, capital adequacy levels, generating internal equity through profit and sectorial growth indicators.

As there are no additional legal and/or financial collateral guarantees provided separately for the repayment of the bond issued by Mega Varlık Yönetim, the note assigned for the TRY dominated bond issuance has been assigned as the same as the Company's Long and Short Term National Local Ratings.

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

**Positive** – Track record of improved growth performances in the (a) Purchase Cost / Collections Ratio (b) Purchase Cost / Collections (c) High level of internal equity generation possible upgrades in the rating notes in the future.

**Negative** - (a) Weakness in collections ratio (b) Downward in profitability ratios (c) Upward trend of the debt ratio (d) Slowdown conditions in the asset management sector.

JCR Eurasia Rating will monitor developments in regard to the proposed projection of Mega Varlık Yönetim A.Ş.'s growth strategy, planned cash injection, the progress of portfolio and assess the impact of any deterioration in collection rate.

## 2. Outlook

JCR-Eurasia has assigned "**Positive**" outlook for the long term and "**Stable**" for the short term national ratings of Mega Varlık Yönetim A.Ş. considering the high level of expected cash inflow from purchased loans, sustainable level of profitability, growth projections, asset quality, shareholder structure, effective operational workflow, increasing market share and current economic conditions.

Progress in the domestic and global financial circumstances, ability to manage additional risks combined with the growth of the Company, ensuring the continuation of increasing collection revenues, improvements in asset quality and profitability level and upgrades in Turkey's country ceiling ratings are factors that can contribute to any future positive changes in ratings and outlook status.

JCR-ER will monitor developments in regard to the proposed projection of Mega Varlık Yönetim A.Ş.'s growth strategy. Any evidence of a shift towards a more aggressive debt-funded growth strategy, deceleration in general economic activities, worsening competition conditions, deterioration in asset quality and profitability ratios, increasing tension in politics and downgrading of the sovereign rating of Turkey and alterations in its outlook are the substantial influences that may exert downward pressure on future changes in ratings and outlook status.

## 3. Sponsor Support and Stand Alone

Sponsor Support grades and risk assessments reflect the financial strength and willingness to support the Company from the main shareholder, Mr. Jacob Ortell Kingston who also hold majority shares in WRE Biofuel and United Fuel Supply, a leading institution in USA operating in the energy sector. It is considered that the shareholders have the sufficient propensity to supply long term liquidity or equity to Mega Varlık Yönetim A.Ş. in case of any need and possess sufficient experience to offer efficient operational support. Therefore, the Company's Sponsor Support rating has been determined as (2).

The Stand-Alone rating is formed depending on the Company's collection rate, equity structure, risk management applications, market shares, growth rates and occurring risks in the business environment. It is assumed that Mega Varlık A.Ş. has enough experience and accumulation of infrastructure to manage risks incurred in the balance sheet without shareholder

support, provided that they monitor their existing portfolio positions. In this respect, the Stand-alone rating of Mega Varlık has been affirmed to '**BC**' in JCR Eurasia Rating notation system.

### b. Organization & Employees

The Board of Mega Varlık consists of five members, Mr. Çağ lar Şendil serving as board member and a general manager elected from among its members. Mega Varlık has a staff force of 11 personnel as of March 31, 2016. Mega Varlık continues to work with the attorney's offices across Turkey 11. The Group's management organization was established through the decision of the Board of Directors.

The Company's senior management consists of a general manager and the departments of a legal consultancy department and credit monitoring services under the assistant general management, financial control & budget, operation, purchasing & administrative affairs, HR, operations under assistant general management.

### c. Shareholders, Subsidiaries & Affiliates

The following table shows the current shareholder structure of Mega Varlık Yönetim A.Ş.. The Company's real person shareholding structure covers 5 individuals. and Mr. Jacob Ortell Kingston holds the largest share as of December 31, 2015.

As of December 31, 2015, the Company's share capital was TRY20mn. The Company's all shares are registered shares. The Company has no preferred shares in the capital.

Mega Varlık Yönetim A.Ş.		
Shareholders Structure	FYE2015	
	Amount	Share %
Jacob Ortell Kingston	19,999,996	99.99
Mehmet Demir	1	<1.00
İzzet Bozkurt	1	<1.00
Yakup Levent Korkut	1	<1.00
Çağ lar Şendil	1	<1.00
<b>Paid Capital (TRY/000)</b>	<b>20,000</b>	<b>100.00</b>



#### **d. Corporate Governance**

Mega Varlık Yönetim A.Ş. is not a publicly traded Company; therefore, the corporate governance discipline is not a field that is required to be taken into consideration. On the other hand, the Company is subject to the regulation and supervision by BRSA. The company aligns all of its records and reports with international standards and procures an independent audit service. The periodical financial statements are disclosed to the public via its website. The Company is governed by a 5-member Board of Directors. Information technology systems, company size, activities and its complexity have been established to comply with the Company.

The Company's all information is securely stored in an electronic environment that provides the needed information to be reported. Sufficient integration has been performed between the departments of collection, law, asset valuation, credit monitoring, financial affair, allocation and operation.

The Audit Committee, The Corporate Governance Committee and Early Identification of Risk Committee have not yet been established. However, the Company has the departments of legal consultancy, analysis and financing. Investments for the advancement of reliable monitoring and collection processes in the system are planned along with company reorganization efforts. The establishment of risk monitoring, legal monitoring are the parts of the Company's in time collection program. Together with this system, data related with collections are simultaneously monitored, debtor balances are processed in the system and monitored in weekly reports, firms' risk and collateral conditions, legal developments/processes, protocol and payment plans and managerial and legal processes are monitored daily. However, extensive investment is required in this field.

We, as JCR Eurasia Rating, are of the opinion that the senior management of the Company is adequate in terms of education, experience and managerial skills.

#### **4. Sector Analysis**

The Asset Management Sector has been regulated and supervised by the Banking Regulation and Supervision Agency (BRSA) since 2003. The first portfolio sales related with Asset Management Companies were provided with the transfer and assignment of bank-owned receivables by the Savings Deposit Insurance Fund. Asset Management Companies increase the

collection possibilities of debts of all maturities acquired by tender from banks and other financial institutions as a consequence of restructuring. BRSA holds a very stringent and lengthy due diligence process in order to issue the license required for purchasing NPLs under the stated regulations, the minimum paid-in capital per company has been increased to TRY 20mn. According to the data published by BRSA, 12 asset management companies are operating in Turkey as of December, 2015. NPL AMCs are granted a five-year exemption period from transaction taxes and certain legal fees by law.

Regulation changes of establishment and operating principles of NPL Asset Management Companies came into effect in March 5, 2016. The law has presented positive developments in the sector's corporate structure, quality of financial reports, standardization and transparency, and the assurance of competitive equality. This legal infrastructure is expected to increase the efficiency of supervision and effectiveness of audit systems in the sector.

Under the stated regulations;

- The minimum paid-in capital per company has been increased to TRY 20mn with a compliance deadline of December 31, 2017,
- The establishment and operations of AMCs has been consolidated under a single law and these companies are defined as 'non-bank financial institutions',
- Companies have been required to establish the necessary legal infrastructure, information systems, risk assessment and internal control systems in order to carry out effective supervision and audit,
- Establishment requirements for new companies have been aggravated,
- The minimum professional experience and education levels required for the company board members, general managers and assistant general managers have been updated.

The rates of entry and exit and change in ownership structure and executive staff remain relatively low in the sector. The NPL AMC Sector is based on intensive competitive working conditions. The Sector is one of the most highly affected sectors from the fluctuations and uncertainties in Turkey's macroeconomic conditions. Administration policies in the sector are becoming increasingly difficult due to BRSA regulations and changes in the economic cycle.

NPL Asset Management Companies have a crucial role in the banking sector of Turkey in terms of turning into cash of non-performing loans, have started to operate mainly after 2006. Sales of bad loans facilitate banks to transfer receivables to NPL Asset Management Companies at a discount to face value. Turkey's local rules halts banks lowering interest rates for distressed borrowers and any provisions they make are not deductible for the purpose of corporate taxes. Sales of bad loans allow the interest rates to be amended and the concretized loss is allowable for the purpose of taxes which trigger the banks to sell their NPLs. The sales can either be a direct sale or in a form of revenue sharing. NPL AMCs in Turkey service approximately 2mn. borrowers.

On the other hand, total number of borrowers with a consumer or residential loan has surpassed 15 mn. and there are almost to 60 mn. credit cards in the retail loan market.

NPL Asset Management Companies buy non-performing loans (NPL) from the banks with a tender offer at a high discount and then they try to collect as much as they can via contacting customers to convince them to pay back loans and negotiate with them by pressuring them with laws to be enforced. Typically, NPL Asset Management Companies purchased loans at 12.39% of the face value in 2014, which enables them to negotiate much better with customers than banks. Selling loans to asset management firms facilitate to bunch high & lower quality debts and get rid of the bad debts and also to write off the losses which bring tax advantage.

According to the data published by BRSA, 13 NPL Asset Management Companies are operating in Turkey as of March, 2015. Sales of portfolio of non-performing loans by banks between 2010- 2014 is shown below. Sectorial financial disclosure statements of 2015 are not disclosed by BRSA. 2014 data are used in the sector comparison.

Year	Loan Portfolio Million TL	Purchased Cost-Portfolio Million TL	%
2010	2,139	246	11,5
2011	2,656	198	7,45
2012	2,527	359	14,2
2013	2,570	370	14,4
2014	4,305	586	13,6
<b>Total</b>	<b>14,197</b>	<b>1.759</b>	<b>12,39</b>

Source: BRSA

Purchase cost of non-performing loans (NPLs) from banks decreased to 13.6% in 2014 from 14.4% in 2013. Non-

performing loan books of the Turkish banks widened remarkably after Lehman's demise in 2008. Turkish banking sector's NPL ratio has been stood around 2.9% (TRY36.4 bn) as of December, 2014. Retail and SME segments with a rate of over 60% make up the main's share in total NPLs.

Asset Management Companies - 2015	
1	(ANADOLU) ARTI VARLIK YÖNETİM
2	BEBEK VARLIK YÖNETİM
3	(DENİZ) DESTEK VARLIK YÖNETİM
4	EFES VARLIK YÖNETİM
5	FİNAL VARLIK YÖNETİM
6	GİRİŞİM (GÜVEN) VARLIK YÖNETİM
7	İSTANBUL VARLIK YÖNETİM
8	MEGA VARLIK YÖNETİM A.Ş.
9	RCT VARLIK YÖNETİM
10	SÜMER VARLIK YÖNETİM A.Ş.
11	TURKASSET (LBT ) VARLIK YÖNETİM
12	VERA VARLIK YÖNETİM

Source: BRSA

NPL AMCs' primary activity field is to re-structure the loans which are taken over from banks or financial institutions with an appropriate payment plan by settling with the debtors on a common ground based on mutual trust. According to BRSA's 2014 year-end data, the total assets size of the sector reached TRY 2.55bn with a growth rate of 37.49% as of FYE2014. Moreover, the total net profit of the sector increased 45.35% to TRY89.19mn and profitability ratios of the sector improved accordingly. The short-term resources and high interest rate risk in the funding structure of the sector are the most important financial risks. NPL AMCs' profit indicators improved and stood generally above of the banking sector in 2014.

AMCs	Market Share %		Change %
	2014	2013	
ANADOLU (ARTI) VARLIK YÖNETİM	4.12	3.90	0.21
BEBEK VARLIK YÖNETİM	2.97	4.89	-1.91
DENİZ(DESTEK) VARLIK YÖNETİM	1.95	0.52	1.43
EFES VARLIK YÖNETİM	7.43	5.97	1.46
FİNAL VARLIK YÖNETİM	5.56	5.34	0.22
GİRİŞİM VARLIK YÖNETİM	31.51	31.24	0.27
İSTANBUL VARLIK YÖNETİM	5.83	7.47	-1.65
TURKASSET (LBT ) VARLIK YÖNETİM	30.56	32.69	-2.13
RCT VARLIK YÖNETİM	30.56	32.69	-2.13
VERA VARLIK YÖNETİM	4.98	2.16	2.81
ANADOLU (ARTI) VARLIK YÖNETİM	4.12%	3.90	0.21

Source: BRSA

On the flip side, bond issuances have been providing other sources of funding for companies. Moreover, funding through bond gathered speed in 2011 and rose in 2013.

AMCs	Debt Ratio %	
	2014	2013
ANADOLU (ARTI) VARLIK YÖNETİM	70.22%	57.19%
BEBEK VARLIK YÖNETİM	2.06%	17.24%
DENİZ(DESTEK) VARLIK YÖNETİM	81.60%	1.32%
EFES VARLIK YÖNETİM	82.18%	85.61%
FİNAL VARLIK YÖNETİM	87.00%	86.96%
GİRİŞİM VARLIK YÖNETİM	87.32%	86.09%
İSTANBUL VARLIK YÖNETİM	78.65%	80.62%
TURKASSET (LBT ) VARLIK YÖNETİM	82.51%	82.08%
RCT VARLIK YÖNETİM	17.13%	10.03%
VERA VARLIK YÖNETİM	79.86%	68.62%

Source: BRSA

The return on average assets and equity ratios of the sector was considerably higher than the other financial sectors and this stable profitability will continue as long as the level of the NPL AMCs sector increases. The NPL AMCs' average ROAA and ROAE ratios stood at 6.00% and 25.22%, respectively, along with a stable improvement.

AMCs	2014	
	ROAA	ROAE
(ANADOLU) ARTI VARLIK YÖNETİM	0.04%	0.11%
BEBEK VARLIK YÖNETİM	-1.06%	-1.19%
(DENİZ) DESTEK VARLIK YÖNETİM	-1.37%	-4.36%
EFES VARLIK YÖNETİM	9.94%	60.03%
FİNAL VARLIK YÖNETİM	5.85%	44.91%
GİRİŞİM (GÜVEN) VARLIK YÖNETİM	5.07%	38.41%
İSTANBUL VARLIK YÖNETİM	4.23%	20.72%
TURKASSET (LBT ) VARLIK YÖNETİM	0.24%	1.36%
RCT VARLIK YÖNETİM	21.46%	24.93%
VERA VARLIK YÖNETİM	15.59%	68.24%
<b>AVERAGE</b>	<b>6.00%</b>	<b>25.32%</b>

Source: BRSA

## 5. Financial Analysis

### a. Financial Indicators & Performance

#### i. Indices Relating to Size

Mega Varlık Yönetim A.Ş. is a small scale institution with short business track among the 13 asset management companies. The sector's market share is dominated by 2 institutions. The Company's asset base augmented by 62.54% to TRY92.07mn. as at end-FY March 2016 from TRY56.65mn. as of December 31,2015. Despite its aggressive growth, in line with the rapid expansion of the loan portfolio, the Company's financial performance continued to improve.

#### ii. Indices Relating to Profitability

Mega Varlık Yönetim A.Ş.'s market influence is still in the development phase due to its short activity history, the negative pressure on balance sheet profitability exerted by operating expenses will gradually decrease.

Beginning as of March 18,2015, operating costs related to set up activities of the Company will be better tolerated in 2016. Additionally, it is expected that the relatively low cost of the Company's long term funding resources will increase Company profitability by abating cost pressures.

Despite not having a long track record as a natural consequence of being a start-up company, Mega Varlık Yönetim A.Ş.'s profitability indicators were positive in 2015 relative to activity expansion.

The Company's profit before tax contributed to a stronger net profit that stood at TRY 7.97mn in FYE2015, supported mainly by its net interest income. Mega Varlık's profitability ratios maintained its ongoing path thanks to net interest margin as of 1Q2016.

Mega Varlık Yönetim A. Ş.'s profitability indicators are listed below as of FYE2015.

FINANCIAL RATIOS %	FYE2015
ROA - Pretax Profit / Total Assets (avg.)	28.17
ROE - Pretax Profit / Equity (avg.)	60.49
Total Income / Equity (avg.)	72.26
Total Income / Total Assets (avg.)	33.65
Total Expense / Total Liabilities (avg.)	10.26
Net Profit for the Period / Total Assets (avg.)	22.53
Total Income / Total Expenses	614.11
Total Operating Expenses / Total Income	13.31
Operating ROAA (avg.)	28.17
Operating ROAE (avg.)	60.49

The Company generated a TRY5.15mn. profit for the first quarter of 2016. This strong quarter also reflects the strong collection rate the Company improves results in challenged market environment. Mega Varlık also estimates an increase in NIM to TRY40.53mn. as of FYE2016. The Company's business has certainly been stabilised and purchased loans has started to generate sufficient cash flow.

Mega Varlık's total expenses-to-total income ratio stood at 13.31% in FYE2015, mainly driven by the non-financial expenses despite the current high interest environment and lacking of provision amount. Additionally, total income to total assets (avg.) during 2015 calculated at 33.65% thanks to high level of net income generation.

Historically net interest amount has accounted TRY9.24 as of FYE2015. Growth in overdue loans during the period has triggered net interest income generation. Mega Varlık undertaking of credit risk was lower than its peers, as much of the portfolio was focused on secured credit files. The fierce competition inherent in the sector led to a downward trend line in the Company's interest margin in FY2015.

Management and operation of non-performing assets, restructuring the debts of the financially distressed firms, highly qualified business analysis for financially distressed companies are main drivers of Mega Varlık.

### b. Asset Quality

The rating assignment reflects Mega Varlık's improved asset quality despite rapid expansion of its loan

portfolio base. The Company's risk management framework includes the credit, market, liquidity and operational risks. Mega Varlık has set up Internal System in line with BRSA regulations in order to establish a thorough and comprehensive risk management system.

The share of earning assets in the Company's total assets (TRY53.96mn) stayed at 95.26% in FYE2015, down from 3.98% compared to as at end-FY March 2016. The earning assets weighted dispersion contributes to the Company's asset quality, tying the asset quality directly into the quality of the overdue loans portfolio. Therefore, the collection performance of overdue loans and collections ratios are examined in detail.

Mega Varlık sustained its asset structure throughout the periods by spreading risks through its portfolio receivables structure. Mega Varlık's receivables are composed of credits assigned and transferred from nonperforming receivables of banks and nonbank financial institutions. Mega Varlık's asset quality is defined by factors such as;

- Establishing correct transfer pricing of assets.
- Success of restructuring of receivables,
- Ease of collection created and collection capability,
- Maintaining qualified staff.

Steady improving trend in efficiency triggering profitability ratios thanks to boutique-style NPL portfolio. Mega Varlık's main objective is the rapid and efficient collection of purchased loans. The Company's management department are responsible for analysing the viability of borrowers, practices and monitoring the debt restructuring plan.

Portfolio Details	1Q2016	FYE2015
Purchased Cost / Purchased Loans	65.33	94.51
Purchase Cost / Collections	2.08	4.10
Operating Expenses / Collection	5.30	8.46

Concurrent to the improving performance, Mega Varlık had been able to maintain its Purchase Cost / Collections and Purchased Cost / Purchased Loans ratios. Meanwhile, the Company also focused on improving its loan portfolio quality by strengthening its monitoring and recovery processes.

Mega Varlık's profitability was mainly stemmed from high level of collections capability and the high level of



discount advantage obtained in the tender. The Company's main portfolio detail such as the purchase cost to purchased loan ratio decreased to 65.33% in 1Q2016 % from 94.51% in FYE2015 while purchased cost to collections decreased to 2.08% in 1Q2016 from 4.10% in FYE2015.

### c. Funding & Adequacy of Capital

NPL AMCs principally meets its funding needs through its own equity, collections, bank loans and bond issue. However, Mega Varlık meted its funding needs via miscellaneous payables in FYE2015.

Mega Varlık's liabilities (excluding equity) had a 94.70% cost bearing resources. The stated high level of non-interest bearing resources, derived from the purchase of a customer's doubtful receivables with a discount, constituted the Company's basic funding resource and had an important role in the Company's profitability and growth performance.

FINANCIAL RATIOS %	1Q2016	FYE2015
Equity / Total Assets	34.24	46.57
Equity / Total Liabilities	65.76	87.16

Mega Varlık's equity to total assets and liabilities ratios stood at 46.57% and 87.16% as of FYE2015 due to support of net profit. In line with ongoing business, the stated ratios followed a downward path in 2016.

Capitalisation level is tight in the sector, especially as their low profits are vulnerable to a further downturn in Turkey. Additionally, the minimum paid-in capital per company has been increased to TRY 20mn with a compliance deadline of December 31, 2017. Mega Varlık Yönetim A.Ş.'s paid capital meets legal requirements.

However, efficient collection policies ease the management of fund requirement and liquidity. Moreover, a bond issue is on the Company's 2016 agenda.

## 7. Risk Profile & Management

### a. Risk Management Organization & its Function – General Information

The Company is exposed to various risks such as credit, liquidity, interest and FX risks derived during its operations. Moreover, receivables growing out from purchased receivable portfolios are monitored on

individual base with close and direct contact rather than systematically structuring and legal proceedings are initiated and executed simultaneously.

Operation, law, finance units are formed in the organization structure. Assets evaluation department monitor the operational risks of all activities at the moment of transaction via an internal control method. The internal audit unit has not yet been established to manage risks arising from the Company activities. Within the current Company structure, no provision has been made to compensate for operational risk.

### b. Credit & Market Risks

Although the Company has a limited available credit risk policy, 95.26% of the Company's assets were composed of purchased loans and bank loan as of December, 2015. The Company's total purchased loans amount was TRY67.88mn with the purchase price of TRY52.08mn. The Company has not yet established a standard method, Value at Risk (VAR) and monthly sensitivity analyses to measure exchange and interest rate risks, gap analyses or the infrastructure for systematic monitoring methods such as asset-liability risk measurement models which include measurements of net position values against equity. Additionally, scenario analyses and stress tests are not performed. Mega Varlık has no off-balance sheet contingencies and commitments figures in FYE2015.

### c. Liquidity Risk

Mega Varlık is exposed to liquidity risk during the funding of its operations and manages its liquidity risk through regular monitoring of forecasted and actual cash flows, matching the maturity profiles of financial assets and liabilities. Mega Varlık's liquidity policy consists of the following factors;

- The Company's receivables are planned to be collected in a maximum of two years,
- The collateral can be converted to cash well,
- The portfolio must generate a collateral to be used for debts,
- The portfolio of real estates is preferred to be from commercial real estates,
- The Company's debt ratio stands at 20x or below.

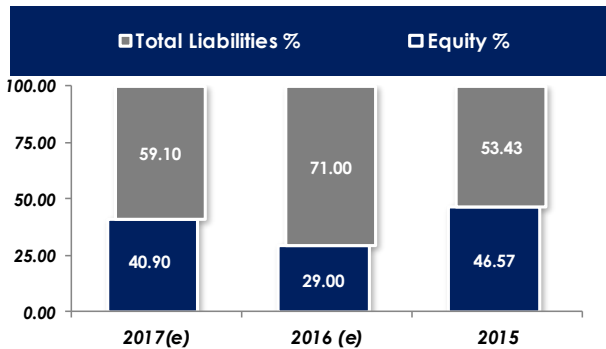
Mega Varlık Yönetim A.Ş. cash level is very low due to corporate receivables weighted dispersion of initial portfolio acquired. The credit line is improving

continuously due to the Company's ongoing efforts in this respect. Additionally, the increasing share of boutique-style NPL portfolio in the Company purchased loans, reaching to approximately 100% as of reporting date, would lead to a more regular and prompt cash flow, relieving the liquidity management.

### 8. Budget & Debt Issue

Mega Varlık has projected a robust growth path during FY2016 and FY2017 (including planned bond issue of TRY15mn.). accounting for the uncertainties prevailing in the market. The estimated budget projection submitted by the Company is shown in the table below. All other figures are consistent with the balance of the current financial statements.

As there are no additional legal and/or financial collateral guarantees provided separately for the repayment of the bond issued by Mega Varlık Yönetim, the note assigned for the TRY dominated bond issuance has been assigned as the same as the Company's Long and Short Term National Local Ratings.



JCR Eurasia Rating believes the company is expected to maintain its business profile for following periods due to its strong collection rate through purchased portfolios.

Mega Varlık (TRY/000)	2016(e)	2017(e)
Earning Assets	88,645	182,945
Purchased Loans	87,445	212,445
Non-Earning Assets	47,540	37,110
<b>Total Assets</b>	<b>136,185</b>	<b>220,055</b>
Cost Bearing Resources	15,000	60,000
Borrowing from Domestic Market	15,000	60,000
Non Cost Bearing Resources	24,500	30,000
Equity	96,685	130,055
<b>Total Liabilities</b>	<b>136,185</b>	<b>220,055</b>

- 2016 year-end estimates were formed based on the performance and budget within the current year,
- The increase in total assets from TRY56.65mn as of December 31, 2015 to TRY136.19mn as of December 31, 2016 was mostly based on the improvement in profitability, cash injection and bond issue.
- The amount of bonds to be issued is equal to 15.51% of the Company's equity size and amounts to approximately 11.01% of its total assets size as of December 31, 2016,
- Despite meeting of legal adequacy level, Mega Varlık is projected to increase paid-in capital by a cash increment TRY50mn as of December 31, 2016,
- Projected debt ratio is 29% and 41% as of FYE2016 and FYE2017, respectively.
- Income Statement estimates were formed through the Company management's foresights regarding high collection rate,
- The Company's purchased loans to total assets are expected to stand at 64.21% and 96.54% as of FYE2016 and FYE2017, respectively.
- Net Interest Income (NIM) is planned to increase to TRY40.53mn. and TRY111.60mn. as of FYE2016 and FYE2017, respectively.
- Net profits are expected to reach TRY26.69mn. and TRY60.06mn. as of FYE2016 and FYE2017, respectively.
- The Company's allowance for overdue loan portfolio (level of provisioning) is projected to record of TRY31mn as of FYE2017.

Mega Varlık (TRY/000)	2016(e)	2017(e)
Interest Income	41,625	120,000
Interest Expenses (-)	1,100	8,400
Other Expenses (-)	4,022	5,275
Provisions (-)	700	31,000
Tax (-)	9,000	14,500
<b>Net Profit</b>	<b>26,685</b>	<b>60,055</b>

Considering the previous year's asset size growth and profitability performance, the Company is believed to be able to fulfil its liabilities on time and reach the realization of its projects. Looking ahead in FY2016, JCR-ER expects higher loan-loss provisions for AMCs stemming from macro pressures.

The Company's expected mix of bank borrowings and bond issues provide the flexibility to finance its activities. Mega Varlık generates the majority of the cash used through its portfolio and shareholder loan, indicating sustainability and liquidity structure. The table below illustrates the share of cash generating channel items of Mega Varlık for the projected years are stated as below.

<b>Cash Flow Table (TRY/000)</b>	<b>May,2016-17</b>
<b><i>Cash Inflows</i></b>	<b>156,000</b>
Portfolio Collection	<b>47,200</b>
Bond Issuance	<b>15,000</b>
Property-Inventory Sales Amount	<b>23,300</b>
Loans	<b>70,000</b>
Interest Income	<b>500</b>
<b><i>Cash Outflow</i></b>	<b>153,350</b>
Interest Expense	<b>7,500</b>
Bond Issuance Repayment	<b>1,100</b>
Loans Repayment	<b>750</b>
Portfolio Purchase Cost	<b>140,000</b>
Current Account Payments	<b>4,000</b>
<b>End of the Period</b>	<b>2,650</b>

Mega Varlık Yönetim A.Ş. BALANCE SHEET - ASSET (TRY/000)	FYE 2015 USD (Converted)	FYE 2015 TRY (Original)	FYE 2015 TRY (Average)	As % of 2015 Assets (Original)	FYE 2015 Growth Rate %
<b>A- TOTAL EARNING ASSETS ( I+II+III )</b>	<b>18,558</b>	<b>53,960</b>	<b>26,980</b>	<b>95.26</b>	<b>n.a</b>
<b>I- LOANS AND LEASING RECEIVABLES (Net)</b>	<b>18,558</b>	<b>53,960</b>	<b>26,980</b>	<b>95.26</b>	<b>n.a</b>
a) Short Term Loans	0	0	0	n.a	n.a
b) Lease Assets	0	0	0	n.a	n.a
c) Medium & Long Term Loans	0	0	0	n.a	n.a
d) Over Due Loans	18,558	53,960	26,980	95.26	n.a
e) Others	0	0	0	n.a	n.a
f) Receivable from Customer due to Brokerage Activities	0	0	0	n.a	n.a
g) Allowance for Loan and Receivables Losses (-)	0	0	0	n.a	n.a
<b>II- OTHER EARNING ASSETS</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>n.a</b>	<b>n.a</b>
a) Balance With Banks -Time Deposits	0	0	0	n.a	n.a
b) Money Market Placements	0	0	0	n.a	n.a
c) Reserve Deposits at CB (*)	0	0	0	n.a	n.a
d) Balance With CB- Demand Deposits	0	0	0	n.a	n.a
<b>III- SECURITIES AT FAIR VALUE THROUGH P/L</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>n.a</b>	<b>n.a</b>
a) Treasury Bills and Government Bonds	0	0	0	n.a	n.a
b) Other Investment	0	0	0	n.a	n.a
c) Repurchase Agreement	0	0	0	n.a	n.a
<b>B- INVESTMENTS IN ASSOCIATES (NET) + EQUITY SHARE</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>n.a</b>	<b>n.a</b>
a) Investments in Associates (Net)	0	0	0	n.a	n.a
b) Equity Share	0	0	0	n.a	n.a
<b>C- NON-EARNING ASSETS</b>	<b>924</b>	<b>2,687</b>	<b>1,344</b>	<b>4.74</b>	<b>n.a</b>
a) Cash and Cash Equivalents	0	0	0	n.a	n.a
b) Balance With Banks - Current Accounts	737	2,143	1,072	3.78	n.a
c) Financial Assets at Fair Value through P/L	0	0	0	n.a	n.a
d) Accrued Interest from Loans and Lease	0	0	0	n.a	n.a
e) Other	187	544	272	0.96	n.a
- Intangible Assets	13	39	20	0.07	n.a
- Property and Equipment	162	472	236	0.83	n.a
- Deferred Tax	0	0	0	n.a	n.a
- Other	11	33	17	0.06	n.a
<b>TOTAL ASSETS</b>	<b>19,482</b>	<b>56,647</b>	<b>28,324</b>	<b>100.00</b>	<b>n.a</b>



Mega Varlık Yönetim A.Ş. BALANCE SHEET LIABILITIES & SHAREHOLDERS' EQUITY  (TRY/000)	FYE 2015 USD  (Converted)	FYE 2015 TRY  (Original)	FYE 2015 TRY  (Average)	As % of 2015 Assets  (Original)	FYE 2015 Growth  Rate %
<b>A- COST BEARING RESOURCES ( I+II )</b>	<b>9,858</b>	<b>28,662</b>	<b>14,331</b>	<b>50.60</b>	<b>n.a</b>
<b>I- DEPOSIT</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>n.a</b>	<b>n.a</b>
a) TL Deposit	0	0	0	n.a	n.a
b) FC Deposit	0	0	0	n.a	n.a
c) FC & LC Banks Deposits	0	0	0	n.a	n.a
<b>II- BORROWING FUNDING LOANS &amp; OTHER</b>	<b>9,858</b>	<b>28,662</b>	<b>14,331</b>	<b>50.60</b>	<b>n.a</b>
a) Borrowing From Domestic Market	9,858	28,662	14,331	50.60	n.a
b) Borrowing From Overseas Markets	0	0	0	n.a	n.a
c) Borrowing from Interbank	0	0	0	n.a	n.a
d) Securities Sold Under Repurchase Agreements	0	0	0	n.a	n.a
e) Subordinated Loans & Others	0	0	0	n.a	n.a
<b>B- NON-COST BEARING RESOURCES</b>	<b>552</b>	<b>1,604</b>	<b>802</b>	<b>2.83</b>	<b>n.a</b>
a) Provisions	0	0	0	n.a	n.a
b) Current & Deferred Tax Liabilities	552	1,604	802	2.83	n.a
c) Trading Liabilities (Derivatives)	0	0	0	n.a	n.a
d) Other Liabilities	0	0	0	n.a	n.a
<b>C- TOTAL LIABILITIES</b>	<b>10,409</b>	<b>30,266</b>	<b>15,133</b>	<b>53.43</b>	<b>n.a</b>
<b>D- MINORITY INTEREST</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>n.a</b>	<b>n.a</b>
<b>E- EQUITY</b>	<b>9,073</b>	<b>26,381</b>	<b>13,191</b>	<b>46.57</b>	<b>n.a</b>
a) Prior Year's Equity	0	0	0	n.a	n.a
b) Equity (Added From Internall & External Resources At This Year)	6,879	20,000	10,000	35.31	n.a.
c) Profit & Loss	2,195	6,381	3,191	11.26	n.a
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>19,482</b>	<b>56,647</b>	<b>28,324</b>	<b>100.00</b>	<b>n.a</b>
<b>(*) This item is included in Other Item</b>	<b>USD Rates 1=TRY</b>	<b>2.9076</b>			

Mega Varlık Yönetim A.Ş. INCOME STATEMENT (TRY/000)	FYE 2015
<b>Net Interest Income</b>	<b>9,244</b>
a) Interest Income	9,244
b) Interest Expense	-
<b>Net Fee and Commission Income</b>	<b>-</b>
a) Fee and Commission Income	
b) Fee and Commission Expense	
<b>Total Operating Income</b>	<b>4</b>
Net Trading income (+/-)	- 283
Foreign Exchange Gain or Loss (net) (+/-)	
Gross Profit from Retail Business	
Premium Income from Insurance Business	
Income on Sale of Equity Participations and Consolidated Affiliates	
Gains from Investment Securities (Net)	
Other Operating Income	287
Taxes other than Income	
Dividend	
<b>Provisions</b>	<b>-</b>
Provision for Impairment of Loan and Trade Receivables	
Other Provision	
<b>Total Operating Expense</b>	<b>1,269</b>
Salaries and Employee Benefits	
Depreciation and Amortization	
Other Expenses	1,269
<b>Profit from Operating Activities Before Income Tax</b>	<b>7,979</b>
Income Tax – Current	1,598
Income Tax – Deferred	
<b>Net Profit for the Period</b>	<b>6,381</b>
<b>Total Income</b>	<b>9,531</b>
<b>Total Expense</b>	<b>1,552</b>
<b>Provision</b>	<b>-</b>
<b>Pre-tax Profit</b>	<b>7,979</b>

Mega Varlık Yönetim A.Ş. FINANCIAL RATIOS %	FYE 2015
<b>I. PROFITABILITY &amp; PERFORMANCE</b>	
1. ROA - Pretax Profit / Total Assets (avg.)	28.17
2. ROE - Pretax Profit / Equity (avg.)	60.49
3. Total Income / Equity (avg.)	72.26
4. Total income / Total Assets (avg.)	33.65
5. Provisions / Total Income	n.a.
6. Total Expense / Total Liabilities (avg.)	10.26
7. Net Profit for the Period / Total Assets (avg.)	22.53
8. Total Income / Total Expenses	614.11
9. Non Cost Bearing Liabilities + Equity- Non Earning Assets / Total Assets	44.66
10. Non Cost Bearing Liabilities - Non Earning Assets / Total Assets	-1.91
11. Total Operating Expenses / Total Income	13.31
12. Net Interest Margin	34.26
13. Operating ROAA (avg.)	28.17
14. Operating ROAE (avg.)	60.49
15. Interest Coverage – EBIT / Interest Expenses	n.a.
16. Net Profit Margin	66.95
17. Gross Profit Margin	83.72
20. Growth Rate	n.a.
<b>II. CAPITAL ADEQUACY</b>	
1. Equity Generation / Prior Year's Equity	n.a.
2. Internal Equity Generation / Prior Year's Equity	n.a.
3. Equity / T. Assets	46.57
4. Equity / T. Liabilities	87.16
5. Free Equity / Total Receivables Ratio	87.16
6. Intangible Assets / Total Assets	0.07
7. Operating Expenses / Collections	1.29
8. Purchased Cost / Purchased Loans	43.06
9. Purchase Cost / Collections	1.32
<b>III. LIQUIDITY</b>	
1. (Liquid Assets + Marketable Securities) / T. Assets	3.78
2. (Liquid Assets + Marketable Securities) / T. Liabilities	7.08
3. Fund Borrowed / T. Asset	0.00
4. Net Interest and Commission Income / T. Asset	16.33
5. Total Earning Assets / Equity	7.08
<b>IV. ASSET QUALITY</b>	
1. Loan Loss Provisions / Total Loans	0.00
2. Total Provision / Profit Before Provision and Tax	0.00
3. Impaired Loans / Gross Loans	100.00
4. Impaired Loans / Equity	204.54
5. Loan Loss Reserves / Impaired Loans	0.00
6. Total Guarantees and Commitments/ Total Assets	11.08
7. Total Guarantees and Commitments/ Equity	23.78