


## Corporate Credit & Issue Rating

## NON-BANKING FINANCIAL INSTITUTIONS NPL Asset Management Companies

		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	A-(Trk)	A-2(Trk)	
	Outlook	Positive	Stable	
	Issue Rating	A-(Trk)	A-2(Trk)	
Sponsor Support		2	-	
Stand Alone		BC	-	
Sovereign*	Foreign Currency	BBB-	-	
	Local Currency	BBB-	-	
	Outlook	FC	Stable	-
		LC	Stable	-

\*Affirmed by Japan Credit Rating Agency on October 7, 2016

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Mega Varlık Yönetim A.Ş.		
Ratios	2016	2015
ROA (avg.)	5.71	28.17
ROE (avg.)	12.67	60.49
Total Income / Equity (avg.)	101.03	72.26
Total income / Total Assets (avg.)	45.48	33.65
Provisions / Total Income	75.4	-
Total Expense / Total Liabilities (avg.)	9.97	10.26
Net Interest Margin	41.62	32.95
Equity / Total Assets	44.37	46.57
Equity / Total Liabilities	79.77	81.87
Purchased Cost / Purchased Loans (x)	10.37	65.33
Purchase Cost / Collections (x)	2.03	2.08

### Strengths

- Positive shareholders support strengthening the Company's growth phase in terms of both balance sheet and financial position,
- Efficient cost management supports the bottom line,
- Advantage afforded from receivables with a high discount level creating sound cash flow generation,
- Professional background of the senior management and comprehensive use of analysis and portfolio valuations,
- Equity to total assets level base highly above legal the requirements, promising further growth,
- High growth potential of the sector and company base efficiency triggering profitability ratios thanks to boutique-style NPL portfolio,
- 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,
- Progress needed in the corporate governance practices of the Company,
- Domestic and international political instability, which like a domino effect hampered macro indicators and translated into national currency depreciation and more expensive funding.

Mega Varlık Yönetim A.Ş.		
Financial Data	2016	2015*
Total Assets (000 USD)	38,890	19,482
Total Assets (000 TRY)	137,353	56,647
Equity (000 TRY)	60,947	26,381
Pre-Tax Profit (000 TRY)	5,534	7,979
Net Profit (000 TRY)	4,591	6,381
Net Interest Income (000 TRY)	35,952	9,244
Total Receivables (000 TRY)	139,667	53,960
Equity / T. Assets (%)	44.37	46.57
Purchased Cost / Purchased Loans (x)	10.37	65.33
Purchase Cost / Collections (x)	2.03	2.08
Growth Rate (%)	142.47	n.a.

\*End of the Year

### Company Overview

**Mega Varlık Yönetim Anonim Şirketi** (hereinafter referred to as "Mega Varlık" or the "Company"), a small domestic asset management company, began activities with a Banking Regulatory and Supervisory Agency (BRSA) license as of August, 2015. The Company, within the content of BRSA regulations, concentrates in the management of assets it acquired via purchasing over-due receivables of banks and other financial institutions or taking them on with respect to revenue sharing basis including the activities of collection and restructuring of them as well as consultancy.

The Company is headquartered in Istanbul, had a staff force of 23 as of February 28, 2017. The Company's real person shareholding structure covers 4 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 December 31, 2016.

JCR Eurasia Rating has upgraded Mega Varlık's National Local Rating by one notch to 'A-(Trk)' from 'BBB+(Trk)'

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## 1. Rating Rationale

The Company's 2016 year-end independent audit report prepared in conformity with the BRSA regulations, statistical data on the sector produced by the BRSA, JCR Eurasia Rating's own studies and records, information and clarifications provided by the Company and non-financial figures constitute the major basis of **Mega Varlık Yönetim A.Ş.**'s ratings.

Turkish Non-Performing Loan Asset Management Sector (AMCs) has been regulated and supervised by the Banking Regulation and Supervision Agency (BRSA) since October 1, 2002 in Official Journal No: within the scope of the Law on Restructuring of Debts to Financial Sector numbered 4743 were regulated with Article 143 of the Banking Law numbered 5411 promulgated in the Official Gazette dated 01.11.2005 and numbered 25983. Moreover, the Regulation on the establishment and operating principles of asset management companies entered into force on November 01, 2006. 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.

The rating is based on the independently audited financial statements of the Company prepared in compliance with the BRSA regulations, projections of the management, business analysis of the firm and the sector, statistical data provided from BRSA and JCR Eurasia Rating's own studies. Several calculations and evaluations concerning the financial and business position of the Company are also performed.

The Company's asset quality, profitability and performance figures, equity structure, risk management practices, market efficiency, growth rates as well as the main shareholders' financial and non-financial positions and expected support were taken into consideration while determining the risk assessment of the long term and short term international local currency and foreign currency notes as well as national ones.

### Fundamental Rating Indicators are;

#### High Weight of Earning Assets Contributing to Asset Quality:

The Company's assets have been heavily marked with the large weight of earning assets as of FYE2016 in line with the sectorial dynamics. This asset composition contributes to the Company's asset quality with its level slightly above the sector averages. 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.

#### Sustained Growth Path While Maintaining a Prudential Small Scale:

Mega Varlık, while maintaining its small scale within the NPL Asset Management Sector, has continued to sustain its stable growth trend and outperformed the sector averages. Mega Varlık, while maintaining its prudential small scale within the Turkish AMC sector, has reached a total asset size of TRY137.35mn as of FYE2016

#### High Level of Profitability in Comparison to the Sector

Despite exhibiting a downward trend in pre-tax profitability, the Company's major profitability ratios of ROAA (5.71%) and ROAE (12.67%), contributing positively to the Company's internal equity generation capacity. Furthermore, despite a downward trend, the Company successfully preserved its relatively high net interest margin (41.62% at FYE2016). The Company's strong earnings generation over volatile interest rate and economic cycles are positive from a credit perspective.

#### Robust Equity Level

The Company maintained its relatively strong level of equity, having attained a figure of 44.37% for its equity to total assets. In addition, the Company ratio of equity to total liabilities realized a value of 79.77%. Its current equity level remains relatively high compared to the wider sector and is expected to support the Company's future growth through greater leverage opportunity. Additionally, the Company projects 3 more tranches of bond issuances amounting to TRY32.5mn in 2017. All the aforementioned issues encourage and promise room for future growth

#### Moderate Collection of Receivables:

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 works with 39 law firms on a contractual basis in Turkey.

The Company has spread its receivables across many diverse sectors also subject to significant changes in the composition depending upon the sectorial conditions throughout that specific period. The Company's collection level on client basis has been notably improved and evaluated to converge to the international reference indices to a great extent.

### Lack of At Least 3-Year Track Record

Credit rating methodologies require a minimum of a 3-year data base and time series for a proper performance measurement through horizontal analysis and past comparison. The Company was founded under BRSA licensing in 1Q2015 and started its operations in 3Q2015. Accordingly, lack of the minimum 3-year track record suppressed the Company's ratings.

### Shareholders' Commitment and Support

JCR Eurasia Rating expects that the shareholder from Mr. Jacob Ortell Kingston given its 99.99% ownership in Mega Varlik, offering a comparatively high sponsor support level and will support the Company if required. Mega Varlik'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. JCR Eurasia Rating factors into Mega Varlik's ratings the support from its shareholder, which was evidenced by a capital injection of TRY30 mn. in FY2016. Solid performance in recent year has also resulted in significant internal capital generation.

### Positive Outlook of Turkish NPL AMCs

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.

### Adequate Collection Rate Easing Liquidity Management

Purchase Cost to Collections ratio stood at 2.03x in FYE2016 while Purchase Cost to Purchased Loans standing at 10.37x in the same year. The company expects high cash collection rate to continue increasing in 2017,

### 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 Varlik benefits from its highly qualified senior management who have experience in the fields of finance and law.

### Widening Exposure to Market Risks:

In line with the fact that interest rates of the Company's receivables and payables are usually changed at the end of their term, the Company attempts to minimize the interest rate risk through maturity matching efforts of its receivables and payables. However, regarding the level of financial instruments of the Company with floating interest rates, its exposure to interest rate sensitivity widened notably during 2016. On the other hand, the Company's foreign currency positions regarding its foreign currency denominated on and off-balance sheet items have not posed significant pressure on its profitability.

### Operational Environment Still Exposed to Uncertainties:

The tension in international and domestic politics and the unrest in some bordering countries continue. These stiff political headwinds still persist following the elections held. Upside risks of weakened TL and downside risks to growth also exert pressure on profit margins while continuing to deteriorate asset quality through weakened debt-servicing capabilities of the real sector

With respect to the above-mentioned factors, JCR Eurasia Rating has upgraded Mega Varlık Yönetim A.Ş.'s Long Term National Local Rating one notch to '**A-(Trk)**' from '**BBB+ (Trk)**' and has affirmed at '**A-2 (Trk)**' in the Short Term National Scale. JCR Eurasia Rating has also affirmed at '**BBB-**' for the International FC note and '**A-3**' in the short term, the same as that of the sovereign ratings of the Republic of Turkey within the JCR Eurasia Rating's notation system.

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) Improvements in profitability figures, asset quality and market share, (c) The paid and projected capital increase possible upgrades in the rating notes in the future.

**Negative - (a)** Weakness in collections ratio **(b)** A decline trend in its profitability ratios and resource sources **(c)** Upward trend of the debt ratio **(d)** Macroeconomic and the sector conditions.

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 Rating has affirmed a '**Positive**' outlook on the national long term local currency rating perspectives of Mega Varlık Yönetim A.Ş. based on 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 in the areas of consultancy, publicity and asset management that offers sustainable profitability in the future; high equity level and diversified funding sources encouraging upcoming growth and market efficiency; uplifted sector outlook and recently changed sector legislation promising further growth despite probable adverse effects of volatility in the markets and decelerating economic growth on the sector.

Additionally, JCR Eurasia Rating has affirmed a '**Stable**' outlook on the national short term local currency perspective of Mega Varlık Yönetim A.Ş. based on the above average line of credit balances constantly, growth projections, asset quality, 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 affirmed at '**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 at '**BC**' in JCR Eurasia Rating notation system.

### b. Organization & Employees

The Board of Mega Varlık has 5 members, including a general manager elected from among its member. Mega Varlık has a staff force of 23 personnel as of February 28, 2017. Mega Varlık continues to work with the attorney's offices across Turkey.

The organization chart is divided into four main groups, including legal counsel, asset and receivable management, financial and administrative affairs, information technologies. In addition, the internal audit department reports directly to the Board of Directors.

### 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 4 individuals. and Mr. Jacob Ortell Kingston holds the largest share as of December 31, 2016.

As of December 31, 2016, the Company's share capital reached TRY50mn.(FYE2015:20mn.) The Company's all shares are registered shares. The Company has no preferred shares in the capital.



Mega Varlık Yönetim A.Ş.		
Shareholders Structure	FYE2016	
	Amount	Share %
Jacob Ortell Kingston	49,999,996	99.99
Mehmet Demir	1	<1.00
Yakup Levent Korkut	1	<1.00
Çağlar Şendil	2	<1.00
<b>Paid Capital (TRY/000)</b>	<b>50,000</b>	<b>100.00</b>

#### d. Corporate Governance

Mega Varlık Yönetim A.Ş. is not obliged to fully adopt corporate governance principles. However, the AMC Sector has been subject to the regulation and supervision of the Banking Regulation and Supervision Agency (BRSA). However, the BRSA enforces strict regulation and supervision on the asset management sector in which the Company operates. These circumstances are expected to provide the Company with a corporate organizational structure and an internal audit and risk management system. 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 Board of Directors consists of 5 members, 1 of whom is general manager in the Company. It is concluded that the Board Members have the adequate qualifications to administer their duties and that the Board successfully performs its duties of leading, supervising and inspecting 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. Mega Varlık also established a comprehensive internal control, credit committee, legal counsel and risk management system reporting directly to the board, enforced by the regulator. 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. Asset management Companies (AMCs), beginning in 2006, have a serious role in the banking and other financial sectors of Turkey through liquidating non-performing loans (NPL) into cash. AMCs are one of the structural ways that financial system use in restructuring their financials by solving their NPL through a direct sale or in a form of revenue sharing.

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. NPL AMCs in Turkey 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 as of 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 industries that exhibit the highest level of vulnerability to fluctuations in macroeconomic circumstances and instability. Management policies in the sector become more difficult mainly stemming from changes in economic conjuncture and regulatory pressures from the BRSA.

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 approximately 12.50% of the face value, 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.

Sales of non-performing loans portfolio by the banks between 2012- 2016 is shown below.

Non Performing Loans	2012	2013	2014	2015	2016
Development and Investment Banks	299	425	481	479	602
Participation Banks	1,515	2,261	3,190	4,335	3,175
Deposit-Government Banks	6,789	8,251	10,449	12,024	15,770
Deposits-Foreign Banks	5,481	6,734	7,467	14,936	17,287
Deposits-Domestic Private Banks	9,325	11,950	14,838	15,766	21,046
<b>Total (000,000/TRY)</b>	<b>23,408</b>	<b>29,622</b>	<b>36,426</b>	<b>47,541</b>	<b>57,880</b>

Source: BRSA

Sales of NPLs	Commercial Principal	Individual Principal	Total Principal
2008	1,156	612	1,768
2009	513	487	999
2010	1,626	1,343	2,968
2011	896	1,429	2,325
2012	1,635	1,608	3,242
2013	1,314	1,789	3,103
2014	2,516	3,595	6,111
2015	825	1,262	2,086
2016	3,068	3,45	6,518
<b>Total (000,000/TRY)</b>	<b>13,547</b>	<b>15,573</b>	<b>29,121</b>

Source: BRSA

Sectorial financial disclosure statements of year-end 2016 are not disclosed by BRSA. 2015 data are used in the sector comparison.

*Balance Sheet (TRY/000)	FYE2015	FYE2014
TOTAL EARNING ASSETS	2,078,683	1,854,147
NON-EARNING ASSETS	240,703	312,575
TOTAL ASSETS	2,321,401	2,168,736
COST BEARING RESOURCES	1,388,412	1,566,101
NON-COST BEARING RESOURCES	296,601	167,470
EQUITY	668,781	451,585
TOTAL LIABILITIES AND EQUITY	2,353,794	2,185,156

Source: BRSA, \*(Including B-AMC)

As of FYE2016, the total asset size of all Asset Management Companies was TRY 2.35bn, with an equity of TRY 668mn.. Throughout its over 10-year history the Sector has maintained a consistent growth trend. Purchased loans constitute the largest item among the sector's assets with a share of 88.31%, whilst loans enjoyed the largest share among its resources with a 59.81% share.

The sector enjoys a small share across the wider Turkish Financial Services Sector. Funds offered by the NPL AMC Sector largely belong to companies that are subsidiaries of banks or ones that have banks in among their wider group, making it more difficult for non-bank affiliated Asset Management Companies to carry out their intermediary function. However, in recent years the Sector has increased its appeal for investors with a rising number of applications to obtain licenses from the BRSA.

Asset Management Companies – Feb,2016	
1	BİRLEŞİM VARLIK YÖNETİM A.Ş.
2	(DENİZ) DESTEK VARLIK YÖNETİM
3	EFES VARLIK YÖNETİM
4	FİNAL VARLIK YÖNETİM
5	GÜVEN (GİRİŞİM) VARLIK YÖNETİM
6	İSTANBUL VARLIK YÖNETİM
7	MEGA VARLIK YÖNETİM A.Ş.
8	HAYAT VARLIK YÖNETİM A.Ş.
9	HEDEF VARLIK YÖNETİM A.Ş.
10	RCT VARLIK YÖNETİM
11	SÜMER VARLIK YÖNETİM A.Ş.
12	TURKASSET (LBT) VARLIK YÖNETİM
13	VERA VARLIK YÖNETİM
14	YUNUS VARLIK YÖNETİM A.Ş.

Source: BRSA

## 5. Financial Analysis

### a. Financial Indicators & Performance

#### i. Indices Relating to Size

The Positive rating outlook reflects Mega Varlik's strong competitive position and improving credit metrics. The Company entered the sector later than its peers, the Company has been expanding its market share through its boutique-style portfolio, mainly driven by real estates. The Company has a strong monitoring and analysis services, fine-tune policy terms as well as pricing.

The Company had a total assets size of TRY137.35mn by the end of 2016. Mega Varlik's stronger financial

performance, along with a share issue led to the advancement of its capitalization; its capital was raised to TRY60.95mn. as of December 2016 (FYE2015:26.38mn.). Consequently, its ratio of equity to total assets climbed up to 44.37%, comparing favourably against those of its peers.

#### ii. Indices Relating to Profitability

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 and 2016 relative to activity expansion. Mega Varlık undertaking of credit risk was lower than its peers, as much of the portfolio was focused on secured credit files. 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.

The net present value of the overdue receivables was TRY106.41 mn in FY2016(FY2015:53.96mn.). TRY2.92mn collection from the overdue receivables has recorded as interest income in FY2016 (FY2015: 7.45mn.).

The amount of TRY33.90mn between the net present value and carrying value of the overdue receivables has recorded as the interest income in FY2016 (FY2015: 1.04mn.) Mega Varlık has collected a total of TRY32.91mn from overdue receivables in FY2016. The Company estimates to record amount of TRY101.59mn discounted collection between FY2016-FY2020.

Period	Portfolio	Purchased Cost	Discounted Amount Before Provision	Provision
2016	72,367	74,878	75,600	10,242
2015	67,221	52,923	64,068	23,020

Mega Varlık 's basic profitability indicators as of FYE2016 are listed below.

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Ratios	2016	2015
ROA (avg.)	5.71	28.17
ROE (avg.)	12.67	60.49
Total Income / Equity (avg.)	101.03	72.26
Total income / Total Assets(avg.)	45.48	33.65
Provisions / Total Income	75.40	-
Total Expense / Total Liabilities(avg.)	9.97	10.26
Net Interest Margin	41.62	32.95

Despite rapid asset growth rate, the main profitability ratios ROAA and ROAE stood at 5.71% and 12.67%, respectively, as of FYE2016.

The net interest margin increased by 8.66% to 41.62% in FYE2016 thanks to an almost quadruple increase in interest income to TRY36.84mn and a growth at 107.95% in average earning assets as of FYE2016. The distribution of total income constituted of foreign exchange gains at an amount of TRY4.37mn as of FYE2016, a figure that sharply increased from TRY -283k in FYE2015.

The Company generated a TRY4.59mn. profit in 2016 thanks to stable collection rate. The Company's business has certainly been stabilised and purchased loans has started to generate sufficient cash flow.

Mega Varlik's total expenses-to-total income ratio decreased to 12.05% in FY2016 from 16.28 in FYE2015. Despite rapid asset growth rate, total income to total assets (avg.) during 2016 rose to 45.48%, mainly driven by expanding operational capability.

#### b. Asset Quality

The share of earning assets in the Company's total assets diminished to 84.94% from 99.04% as of FYE2016. However, in absolute terms, Mega Varlik's total earning assets reached TRY116.67mn in FYE2016 (FYE2015:56.1mn.).

The Company had a total asset size of TRY137.35mn. (FYE2015: TRY56.65mn), of which an 80.78% (FYE2015:95.26%) share was composed of purchased loans and receivables. The earning assets weighted dispersion contributed to the Company's asset quality. Additionally, the share of non-earning assets in the related balance sheet section rose to 15.05% in FYE2016 (FYE2015: 0.96%). The Company largely allowed provisions for its uncollectible receivables as of FYE2016 in line with the sectorial exercises.

Mega Varlik's receivables are constituted of credits assigned and transferred from nonperforming loans of banks and non-bank financial institutions. Mega Varlik Yönetim A.Ş.'s asset quality is characterized by key factors such as;

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

Mega Varlik's main strategy is purchasing corporate nonperforming assets which provides the rapid and efficient collection process. The Company's management department are responsible for analysing the viability of borrowers, practices and monitoring the debt restructuring plan. Effective use of monitoring channels is another factor in maintaining asset quality.

With the high discount advantage of the Company's receivables, the asset quality of purchased loans and collection ability increase. Likewise, purchased cost to purchased loans ratio stood at 10.37x as of December 31, 2016. These low realized rates indicate the high level of discount advantage obtained in the tender.

#### c. Funding & Adequacy of Capital

The regulation announced by the BRSA obligates that the ratio of the Company's minimum paid-in capital per company must be at least TRY 20mn with a compliance deadline of December 31, 2017. Mega Varlik increased its paid-in capital amount to TRY50mn. as of August 19,2016.

The Company's 55.63% growth was funded mostly through external sources which was mainly composed of TRY 44.33mn miscellaneous debts, TRY20.89mn bank loans and TRY9.13mn two-year bond issuance.

Financial Ratios %	FYE2016	FYE2015
Equity / Total Assets	44.37	46.57
Equity / Total Liabilities	79.77	81.87

Mega Varlik's equity to total assets and liabilities ratios stood decreased to 44.37% and 79.77% in FYE2016 from 46.57% and 81.87% in FYE2015, respectively. Cost bearing resources led a 39.29% share in total liabilities (excluding equity). However, efficient collection policies ease the management of fund requirement and liquidity. 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. Internal resource generation capacity of the Company and the strong shareholder structure are expected to support the equity level of and the ongoing growth in the following periods.

The maturities of assets and liabilities are reasonably matched and JCR Eurasia considers refinancing risk to be limited.



## 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 been established to manage risks arising from the Company activities in FY2016. Within the current Company structure, no provision has been made to compensate for operational risk.

### b. Credit & Market Risks

The Company has a limited available credit risk policy. 80.78% of the Company's assets were composed of purchased loans in FYE2016 (FYE2015:95.26%). The Company's total purchased loans amount was TRY135.77mn. with the purchase price of TRY74.86mn. 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 TRY1.05mn. off-balance sheet contingencies and commitments figures in FYE2016.

### c. Liquidity Risk

Mega Varlık has afforded cash credit opportunities from shareholder support, the banking system and its creditworthiness via bond issuance. Diversified funding base ensures operating and strategic flexibility in asset-liability management and sound funding base is expected to continue its credit strength. The Company's contingency funding plan is reasonably accessible during times of financial hardship.

Mega Varlık's liquidity policy consists of the following factors;

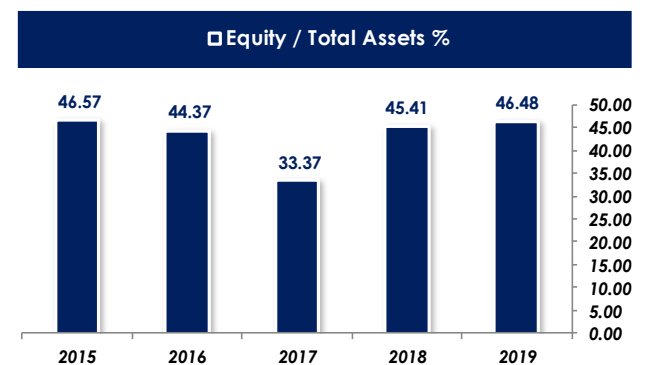
- The Company's receivables are planned to be collected in a maximum of three years,
- The collateral can be converted to cash well,
- The portfolio must generate a collateral to be used for debts,
- The portfolio of real estates is preferred to be from commercial real estates,
- The Company's debt ratio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

## 8. Budget & Debt Issue

Mega Varlık has projected to continue its growth path during FY2017 and FY2018 (including planned bond issue of TRY32.5mn. and TRY70mn in FY2017 and FY2018, respectively). 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. The main sources of the estimated growth are comprised of the bond to be issued, loans to be utilized and the expected increase in profit to be internally generated. The increase in foreign resources has been forecasted at 42.56% and 33.11% in FYE2017 and FYE2018, respectively.

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)	2017(e)	2018(e)
Earning Assets	135,821	222,278
Purchased Loans	119,244	212,228
Non-Earning Assets	110,094	148,080
Total Assets	245,916	370,358
Cost Bearing Resources	161,573	197,623
Non Cost Bearing Resources	2,286	4,550
Equity	82,057	168,185
Total Liabilities	245,916	370,358

- 2017-18 year-end estimates were formed based on the performance and budget within the current year,
- The increase in total assets from TRY137.35mn as of December 31, 2016 to TRY245.92mn as of December 31, 2016 was mostly based on the improvement in profitability and bond issue.
- The Company's purchased loans to total assets are expected to stand at 57.44% and 66.89% as of FYE2017 and FYE2018, respectively.
- The amount of bonds to be issued is equal to 39.61% of the Company's equity size and amounts to approximately 13.22% of its total assets size as of December 31, 2017,
- Projected debt ratio is 33% and 45% as of FYE2017 and FYE2018, respectively.
- Income Statement estimates were formed through the Company management's foresights regarding high collection rate,
- Net Interest Income (NIM) is planned to reach TRY29.37mn. and TRY48.83mn. as of FYE2017 and FYE2018, respectively.
- Net profits are expected to reach TRY21.06mn. and TRY36.13mn. as of FYE2017 and FYE2018, respectively.
- The Company's allowance for overdue loan portfolio (level of provisioning) is projected to stand at TRY22mn and TRY35.5mn.as of FYE2017 and FYE2018.

Mega Varlık (TRY/000)	2017(e)	2018(e)
Interest & Fee Commission Income	38,717	69,500
Interest & Fee Commission Expenses (-)	9,596	21,417
Other Income	4,097	15,000
Provisions (-)	1,602	13,680
Operational Expenses (-)	8,559	10,525
Tax (-)	2,000	2,750
<b>Net Profit</b>	<b>21,056</b>	<b>36,127</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.

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.

Cash Flow Table (TRY/000)	March,2017-18
<b>Beginning of the Period</b>	<b>2,500</b>
<b>Cash Inflows</b>	<b>114,500</b>
Portfolio Collection	21,000
Bond Issuance	32,500
Property-Inventory Sales Amount	20,000
Loans	40,000
Interest Income	1,000
<b>Cash Outflow</b>	<b>99,800</b>
Interest Expense	9,000
Bond Issuance Repayment	6,000
Loans Repayment	1,800
Portfolio Purchase Cost	45,000
Current Account Payments	13,000
Revenue Share Payment	25,000
<b>End of the Period</b>	<b>17,200</b>


Mega Varlık Yönetim A.Ş. BALANCE SHEET - ASSET (TRY/000)	FYE 2016 USD (Converted)	FYE 2016 TRY (Original)	FYE 2016 TRY (Average)	FYE 2015 TRY (Original)	FYE 2015 TRY (Average)	As % of 2016 Assets (Original)	As % of 2015 Assets (Original)	FYE 2016 Growth Rate %
<b>A- TOTAL EARNING ASSETS ( I+II+III )</b>	<b>33,034</b>	<b>116,668</b>	<b>86,386</b>	<b>56,103</b>	<b>28,052</b>	<b>84.94</b>	<b>99.04</b>	<b>107.95</b>
<b>I- LOANS AND LEASING RECEIVABLES (Net)</b>	<b>31,415</b>	<b>110,951</b>	<b>82,456</b>	<b>53,960</b>	<b>26,980</b>	<b>80.78</b>	<b>95.26</b>	<b>105.62</b>
a) Short Term Loans	0	0	0	0	0	n.a	n.a	n.a
b) Lease Assets	39,546	139,668	96,814	53,960	26,980	n.a	n.a	n.a
c) Medium & Long Term Loans	0	0	0	0	0	n.a	n.a	n.a
d) Over Due Loans	0	0	0	0	0	95.26	n.a	n.a
e) Others	1,287	4,546	2,273	0	0	3.31	n.a	n.a
f) Receivable from Customer due to Brokerage Activities	0	0	0	0	0	n.a	n.a	n.a
g) Allowance for Loan and Receivables Losses (-)	-9,418	-33,263	-16,632	0	0	-24.22	n.a	n.a
<b>II- OTHER EARNING ASSETS</b>	<b>1,619</b>	<b>5,717</b>	<b>3,930</b>	<b>2,143</b>	<b>1,072</b>	<b>4.16</b>	<b>3.78</b>	<b>166.78</b>
a) Balance With Banks -Time Deposits	0	0	0	0	0	n.a	n.a	n.a
b) Money Market Placements	1,619	5,717	3,930	2,143	1,072	4.16	3.78	166.78
c) Reserve Deposits at CB (*)	0	0	0	0	0	n.a	n.a	n.a
d) Balance With CB- Demand Deposits	0	0	0	0	0	n.a	n.a	n.a
<b>III- SECURITIES AT FAIR VALUE THROUGH P/L</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>
a) Treasury Bills and Government Bonds	0	0	0	0	0	n.a	n.a	n.a
b) Other Investment	0	0	0	0	0	n.a	n.a	n.a
c) Repurchase Agreement	0	0	0	0	0	n.a	n.a	n.a
<b>B- INVESTMENTS IN ASSOCIATES (NET) + EQUITY SHARE</b>	<b>4</b>	<b>13</b>	<b>7</b>	<b>0</b>	<b>0</b>	<b>0.01</b>	<b>n.a</b>	<b>n.a</b>
a) Investments in Associates (Net)	0	0	0	0	0	n.a	n.a	n.a
b) Equity Share	4	13	7	0	0	0.01	n.a	n.a
<b>C- NON-EARNING ASSETS</b>	<b>5,853</b>	<b>20,672</b>	<b>10,608</b>	<b>544</b>	<b>272</b>	<b>15.05</b>	<b>0.96</b>	<b>3,700.00</b>
a) Cash and Cash Equivalents	0	0	0	0	0	n.a	n.a	n.a
b) Balance With Banks - Current Accounts	0	0	0	0	0	n.a	n.a	n.a
c) Financial Assets at Fair Value through P/L	0	0	0	0	0	n.a	n.a	n.a
d) Accrued Interest from Loans and Lease	0	0	0	0	0	n.a	n.a	n.a
e) Other	5,853	20,672	10,608	544	272	15.05	0.96	3,700.00
- Intangible Assets	34	119	79	39	20	0.09	0.07	205.13
- Property and Equipment	5,022	17,736	9,104	472	236	12.91	0.83	3,657.63
- Deferred Tax	0	0	0	0	0	n.a	n.a	n.a
- Other	798	2,817	1,425	33	17	2.05	0.06	8,436.36
<b>TOTAL ASSETS</b>	<b>38,890</b>	<b>137,353</b>	<b>97,000</b>	<b>56,647</b>	<b>28,324</b>	<b>100.00</b>	<b>100.00</b>	<b>142.47</b>

Mega Varlık Yönetim A.Ş. BALANCE SHEET - ASSET (TRY/000)	FYE 2016 USD (Converted)	FYE 2016 TRY (Original)	FYE 2016 TRY (Average)	FYE 2015 TRY (Original)	FYE 2015 TRY (Average)	As % of 2016 Assets (Original)	As % of 2015 Assets (Original)	FYE 2016 Growth Rate %
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c) Medium & Long Term Loans	0	0	0	0	0	n.a	n.a	n.a
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b) Money Market Placements	1,619	5,717	3,930	2,143	1,072	4.16	3.78	166.78
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d) Balance With CB- Demand Deposits	0	0	0	0	0	n.a	n.a	n.a
<b>III- SECURITIES AT FAIR VALUE THROUGH P/L</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>
a) Treasury Bills and Government Bonds	0	0	0	0	0	n.a	n.a	n.a
b) Other Investment	0	0	0	0	0	n.a	n.a	n.a
c) Repurchase Agreement	0	0	0	0	0	n.a	n.a	n.a
<b>B- INVESTMENTS IN ASSOCIATES (NET) + EQUITY SHARE</b>	<b>4</b>	<b>13</b>	<b>7</b>	<b>0</b>	<b>0</b>	<b>0.01</b>	<b>n.a</b>	<b>n.a</b>
a) Investments in Associates (Net)	0	0	0	0	0	n.a	n.a	n.a
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a) Cash and Cash Equivalents	0	0	0	0	0	n.a	n.a	n.a
b) Balance With Banks - Current Accounts	0	0	0	0	0	n.a	n.a	n.a
c) Financial Assets at Fair Value through P/L	0	0	0	0	0	n.a	n.a	n.a
d) Accrued Interest from Loans and Lease	0	0	0	0	0	n.a	n.a	n.a
e) Other	5,853	20,672	10,608	544	272	15.05	0.96	3,700.00
- Intangible Assets	34	119	79	39	20	0.09	0.07	205.13
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- Other	798	2,817	1,425	33	17	2.05	0.06	8,436.36
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Mega Varlık Yönetim A.Ş. INCOME STATEMENT (TRY/000)	FYE 2016	FYE 2015
<b>Net Interest Income</b>	<b>35,952</b>	<b>9,244</b>
a) Interest Income	36,843	9,244.00
b) Interest Expense	891	0.00
<b>Net Fee and Commission Income</b>	<b>- 129</b>	<b>-</b>
a) Fee and Commission Income	-	0.00
b) Fee and Commission Expense	129	0.00
<b>Total Operating Income</b>	<b>8,290</b>	<b>4</b>
Net Trading income (+/-)	-	0.00
Foreign Exchange Gain or Loss (net) (+/-)	4,372	-283.00
Gross Profit from Retail Business	-	0.00
Premium Income from Insurance Business	-	0.00
Income on Sale of Equity Participations and Consolidated Affiliates	-	0.00
Gains from Investment Securities (Net)	-	0.00
Other Operating Income	3,918	287.00
Taxes other than Income	-	0.00
Dividend	-	0.00
<b>Provisions</b>	<b>33,262</b>	<b>-</b>
Provision for Impairment of Loan and Trade Receivables	-	0.00
Other Provision	33,262	0.00
<b>Total Operating Expense</b>	<b>5,317</b>	<b>1,269</b>
Salaries and Employee Benefits	-	806.00
Depreciation and Amortization	-	20.00
Other Expenses	5,317	443.00
<b>Profit from Operating Activities Before Income Tax</b>	<b>5,534</b>	<b>7,979</b>
Income Tax – Current	943	1,386.00
Income Tax – Deferred	-	212.00
<b>Net Profit for the Period</b>	<b>4,591</b>	<b>6,381</b>
<b>Total Income</b>	<b>44,113</b>	<b>9,531</b>
<b>Total Expense</b>	<b>5,317</b>	<b>1,552</b>
<b>Provision</b>	<b>33,262</b>	<b>-</b>
<b>Pre-tax Profit</b>	<b>5,534</b>	<b>7,979</b>

Varlık Yönetim A.Ş. FINANCIAL RATIOS %	FYE 2016	FYE 2015
<b>I. PROFITABILITY &amp; PERFORMANCE</b>		
1. ROA - Pretax Profit / Total Assets (avg.)	5.71	28.17
2. ROE - Pretax Profit / Equity (avg.)	12.67	60.49
3. Total Income / Equity (avg.)	101.03	72.26
4. Total income / Total Assets (avg.)	45.48	33.65
5. Provisions / Total Income	75.4	0
6. Total Expense / Total Liabilities (avg.)	9.97	10.26
7. Net Profit for the Period / Total Assets (avg.)	4.73	22.53
8. Total Income / Total Expenses	829.66	614.11
9. Non Cost Bearing Liabilities + Equity- Non Earning Assets / Total Assets	63.1	99.04
10. Non Cost Bearing Liabilities - Non Earning Assets / Total Assets	18.72	52.47
11. Total Operating Expenses / Total Income	12.05	13.31
12. Net Interest Margin	41.62	32.95
13. Operating ROAA (avg.)	6.62	28.17
14. Operating ROAE (avg.)	14.71	60.49
15. Net Profit Margin	10.41	66.95
16. Gross Profit Margin	12.55	83.72
17. Growth Rate	142.47	n.a
<b>II. CAPITAL ADEQUACY</b>		
1. Equity Generation / Prior Year's Equity	113.62	n.a
2. Internal Equity Generation / Prior Year's Equity	17.4	n.a
3. Equity / T. Assets	44.37	46.57
4. Equity / T. Liabilities	79.77	87.16
5. Free Equity / Total Receivables Ratio	31.36	45.67
6. Purchased Cost / Purchased Loans	10.37	65.33
7. Purchase Cost / Collections	2.03	2.08
<b>III. LIQUIDITY</b>		
1. (Liquid Assets + Marketable Securities) / T. Assets	4.16	3.78
2. (Liquid Assets + Marketable Securities) / T. Liabilities	7.48	7.08
4. Net Interest and Commission Income / T. Asset	32.21	0.16
5. Total Earning Assets / Equity	7.48	7.08
<b>IV. ASSET QUALITY</b>		
1. Loan Loss Provisions / Total Loans	23.07	n.a.
2. Total Provision / Profit Before Provision and Tax	85.74	n.a.
3. Loan and Receivable's Loss Provisions / Total Loans and Receivables	23.07	n.a.
4. Net Receivables / Total Assets	77.47	95.26
5. Total FX Position / Total Assets	7.2	34.67
6. Total FX Position / Equity	16.22	74.44
7. Total Guarantees and Commitments/ Total Assets	4.57	4.92
8. Total Guarantees and Commitments/ Equity	10.29	10.57

		March 9,2017		April 29,2016		
		Long-Term	Short-Term	Long-Term	Short-Term	
International	Foreign Currency	BBB-	A-3	BBB-	A-3	
	Local Currency	BBB-	A-3	BBB-	A-3	
	Outlook	FC	Stable	Stable	Stable	Stable
		LC	Stable	Stable	Stable	Stable
Issue Rating	n.a.	n.a.	n.a.	n.a.		
National	Local Rating	A-(Trk)	A-2(Trk)	BBB+(Trk)	A-2(Trk)	
	Outlook	Positive	Stable	Positive	Stable	
	Issue Rating	A-(Trk)	A-2(Trk)	BBB+(Trk)	A-2(Trk)	
Sponsor Support		2	-	2	-	
Stand Alone		BC	-	BC	-	
Sovereign*	Foreign Currency	BBB-	-	BBB-	-	
	Local Currency	BBB-	-	BBB-	-	
	Outlook	FC	Stable	-	Stable	-
		LC	Stable	-	Stable	-
Analyst		(*) Affirmed by Japan Credit Rating Agency on October 7,2016		(*) Affirmed by Japan Credit Rating Agency on August 28,2015		
		Mr. Orkun İNAN		Mr. Orkun İNAN		