

Corporate Credit & Issue Rating

New Update

Sector: NPL Asset Management
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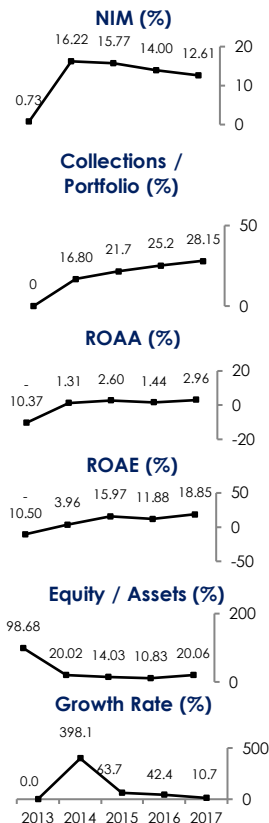
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RATINGS

	Long Term	Short Term		
International	Foreign Currency	N/A	N/A	
	Local Currency	N/A	N/A	
	Outlook	FC	N/A	N/A
		LC	N/A	N/A
	Issue Rating	N/A	N/A	
National	Local Rating	BBB+ (Trk)	A-2 (Trk)	
	Outlook	Stable	Stable	
	Issue Rating	BBB+ (Trk)	A-2 (Trk)	
Sponsor Support	2	-		
Stand-Alone	B	-		
Sovereign*	Foreign Currency	BBB-	-	
	Local Currency	BBB-	-	
	Outlook	FC	Stable	-
LC		Stable	-	

*Affirmed by JCR on November 10, 2017



Destek Varlık Yönetim A.Ş.

Company Overview

Financial Data	2017	2016	2015	2014	2013
Total Assets (000 USD)	32,486	31,771	27,004	20,679	4,511
Total Assets (000 TRY)	123,786	111,810	78,518	47,953	9,628
Equity (000 TRY)	24,835	12,112	11,015	9,601	9,501
Pre-Tax Profit (000 TRY)	3,482	1,374	1,646	378	-499
Net Profit (000 TRY)	2,763	1,097	1,414	100	-499
Net Interest Income (000 TRY)	14,708	13,192	9,898	4,638	35
Total Receivables (000 TRY)	122,062	107,690	77,976	47,167	0
Equity / T. Assets (%)	20.06	10.83	14.03	20.02	98.68
Cost / Purchased Loans (%)	6.64	8.49	15.86	16.91	N/A
Collections / Total Portfolio (%)	28.15	25.20	21.70	16.80	N/A
Growth Rate (%)	10.71	42.40	63.74	398.06	N/A

Destek Varlık Yönetim Anonim Şirketi (hereinafter referred to as “Destek Varlık” or the “Company”), an asset management company, began activities in 2013, under the name of ‘Deniz Varlık Yönetim Anonim Şirketi’. 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 including the activities of collection and restructuring of them as well as consultancy. In 2014, the Company’s title has been renewed to current name and the shareholder structure has been changed. As of December 2017, Lider Faktoring A.Ş. is the sole owner of the Company. The paid-in capital of Destek Varlık was increased from TRY 10mn to TRY 20mn in late 2017.

The asset management companies sector, which is characterized as new in the classification of financial institutions, has a rapid growth trend. With the increase in activities aimed at monitoring the asset quality of the banks, the sector has become more prominent and promises the future. In this sector, Destek Varlık stands out as one of the important players.

The Company had a staff force of 41 employees as of December 2017 in its headquarters located in Istanbul and has no branches.

Strengths

- Increase in bottom line profit and profitability indicators
- Diversified funding mix with bond issuances
- Doubling the paid-in capital via cash injection
- Successful track record of the shareholders in financial sector
- Favorable tax advantage contributing competitiveness and profitability positively
- High growth potential of the sector linked to financial markets and new regulations

Constraints

- Slowdown in growth rate, compared to its peers in the sector
- Uncertainties arising from tensions & conflicts in the local political environment, together with negatively impacting cost of funding
- Weak level of compliance with corporate governance principles

1. Rating Rationale

The Company's 2017 year-end independent audit report prepared in conformity with the BRSA regulations, statistical data on the sector, JCR Eurasia Rating's own studies and records, information and clarifications provided by the Company and non-financial figures constitute the major basis of Destek 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 national ratings as well as issue rating. According to the rating agreement signed with Destek Varlık, international foreign currency and international local currency ratings have not been assigned and not in the scope of this report.

Fundamental rating considerations are as below;

Increase in Bottom Line Profit and Profitability Indicators

The profitability of an asset management company is sensitive to macroeconomic conditions since the collection performance is directly linked to it. In 2017, when even performing loans had difficulties to be paid back, Destek Varlık succeeded to increase its collections. The Company's net profit increased from TRY 1.1mn to TRY 2.8mn in 2017. The rise was mainly achieved by increase in in-year collections and projected collections for the portfolio.

Diversified Funding Structure Through Bond Issuances

Destek Varlık's external resources were bank loans only in previous years. In late 2017, the Company issued a bond amounted TRY 12mn. The bond issuance, particularly from the financial sector, present the advantages of agility in financing, lowering the exposure of bank-dependency, reducing funding costs and relieving the burden of collaterals on bank loans. The bond issuance indicates a better management in liabilities side of the balance sheet.

Doubling the Paid-in Capital via Cash Injection

Following the regulation put forward by BRSA about minimum capital requirements, the Company doubled its paid-in capital in 2017 and this cash injection positively affected the Company's funding structure. The paid-in capital of Destek Varlık was increased from TRY 10mn to TRY 20mn. The aforementioned contribution ended up with lowered leverage, better equity structure and healthier asset quality at all.

Successful Track Record of the Shareholders in Financial Sector

As of FYE2017, Destek Varlık's sole shareholder, Lider Faktoring A.Ş., is one of the leading companies in Turkish factoring sector. Lider Faktoring's shareholders consists of both international financial companies and real-persons. Lider Faktoring is a publicly listed company in Borsa Istanbul stock exchange and meets the necessary requirements in terms of corporate governance and transparency in the market. As being a non-bank factoring company, Lider Faktoring's successful track record is a prominent contributor to Destek Varlık's business.

Tax Advantage of the Sector

As required by law, NPL asset management companies have tax advantages such as stamp tax, mortar, BIIT for 5 years after establishment. Moreover, the new regulation

about extending the 5-year rule to life-long status is on the table. The tax subsidies provide a dual-advantage of both lowering operational costs and gaining competitiveness.

High Growth Potential of the Sector

The NPL asset management sector is one of the fastest growing area in the financial services industry of Turkey. Especially the macroeconomic conditions for the last two years, when the non-performing loans of the banks in an upward trend, helped the asset management sector to grow rapidly. In 2017, a new regulation implemented in which state-owned banks are given permission to sell their impaired receivables to asset management companies. This rule contributed to the growth potential of the sector.

Slowdown in Growth Rate Compared to its Peers

Since the year it was established, Destek Varlık was achieving high growth rate over the sector, except last year. The Company's asset growth rate was 10.71% in 2017, which was below the averages of its peers in the sector. Although the Company's profitability and asset quality has been increased during that year, the slowdown in growth stands out as a negative indicator. The reason is that portfolio of an NPL asset management company is exposed to rapid aging, the majority of the collections are made at the very beginning of the portfolio purchased, due to the fact that the debtors who couldn't paid back over a certain period of time are not be able to pay its debt in the future. Therefore, the companies are need to renew their portfolio with new purchases to continue to create cash flow. Currently, Destek Varlık's low growth rate for the year of 2017 cannot be labeled as a drawback, but rather an indicator for the future of its business model and cash flow.

Macroeconomic Indicators and Its Negative Effects on Cost of Funding

Deterioration in inflation and current account deficit, unrest in the Middle East, continuing state of emergency, rate hikes by the Federal Reserve and subsequent reduction of inflows into emerging economies are expected to lead to an increase in the cost of borrowing throughout 2018. The negativity mentioned may also have an effect on collection performance of the Company since the general slowdown in the economy may lead to an erosion in economic wealth of the debtors.

Intensive Competition in the Sector

Destek Varlık carries out its operation under the regulations of Banking Regulation and Supervision Agency

(BRSA) and Capital Markets Board of Turkey (CMB). On the other hand, like other NPL asset management companies, the Company does not have to comply with Corporate Governance Principles, according to the law. Destek Varlık's compliance level with those principles are relatively low compared to other companies bounded to CMB, like the ones quoted in BIST. Although the compliance is not mandatory for the Company, it would be beneficial for Destek Varlık to increase its corporate governance adaptation for a sustainable and solid standing for mid and long term standing.

With respect to the factors mentioned above, JCR Eurasia Rating has upgraded the Long Term National Rating of Destek Varlık one notch from 'BBB (Trk)' to '**BBB+ (Trk)**' and the Short Term National Rating from 'A-3 (Trk)' to '**A-2 (Trk)**' in JCR Eurasia Rating's notation system. As there are no additional legal and/or financial collateral guarantees provided separately for the repayment of the bonds issued by Destek Varlık, 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.

2. Outlook

JCR Eurasia Rating has assigned a '**Stable**' outlook on the National Long Term Rating perspectives of Destek Varlık based on the macroeconomic prospects of Turkey, growth path of the Company, equity level, profitability, liquidity indicators and loan collection projections. The existing debt instruments and composition of resources have also been evaluated in the assignment of the outlook.

The rating methodology employed in this report evaluates the deterioration of profitability indicators and collection problems and any indication of tightened conditions for debt repayments, coupled with aggravated political risks in the local and global markets as negative signals for the outlook.

JCR Eurasia Rating will continue to monitor developments in regard to the proposed projection and will evaluate Destek Varlık's growth strategy, profitability indicators, debt-level and the health of its equity.

3. Sponsor Support and Stand-Alone Assessment

The financial strength and expected support of the Company's shareholders lay the foundation of its Sponsor Support assessment. As of December 2017, Lider Faktoring A.Ş. is the sole shareholder with 100% share in Destek Varlık. Lider Faktoring's shareholders consists of both international financial companies and real-persons. Destek Varlık's paid-in capital was increased from TRY 10mn to TRY 20mn in 2017 and the amount was paid cash. Considering this support from the shareholder, it is inferred that Lider Faktoring in a ready-state to provide support to Destek Varlık in case of a liquidity or capital requirement. In this regard, JCR Eurasia Rating has affirmed the Sponsor Support note of **(2)** reflecting financial and non-financial states and expected support by the shareholders.

The Company's Stand Alone grade has been constituted with respect to the Company's market shares, growth rates, asset quality, equity structure and risk management practices as well as the development of existing risks in the markets and business environment by using its internal sources. When the factors above are considered, our opinion is that Destek Varlık has reached a level of adequate experience and facilities to manage the occurring risks in its balance sheet through internal means, provided that it maintains the current business scale and efficiency in the market. The Stand-Alone rating has been determined as **(B)**, signifying a sufficient level to bear its liabilities through its own asset quality and profitability level.

4. Company Profile

a) History & Activities

Destek Varlık is established as a subsidiary of Deniz Yatırım Menkul Kıymetler A.Ş. in 2013 in the name of Deniz Varlık Yönetim Anonim Şirketi. In 2017, Lider Faktoring A.Ş. became the sole owner of the Company. Currently, Destek Varlık continues its activities with a paid-in capital of TRY 20mn, under the "Regulation on the Establishment and Operation Principles of Asset Management Companies" and "Banking Law No. 5411".

Destek Varlık, which serves in the fields of purchase and sale of the receivables of banks and other financial

institutions, sale, collection of the receivables from the debts, translation of the assets into cash and restructuring them, helps to raise the assets and receivables of the customers by taking over the collection of the problematic receivables.

In addition to taking over receivables and collecting receivables, the Company also provides consulting services on restructuring receivables or selling them to third parties.

b) Organization & Employees

Parallel to the increase in business scale, the Company's total number of employees rises. As of December 2017, the Company's total staff force was 41 and this figure was 31 in the previous year. The Company's board consists of 5 members, including CEO.

Board Members of Destek Varlık (as of 31.12.2017)

Name	Title	Type
Nedim Menda	Chairman	Non-Executive
Jak Sucuz	Vice Chairman	Non-Executive
Can Güney	Member	Non-Executive
Zafer Cantürk	Member	Non-Executive
Şule Betül Akyürek	Member & CEO	Executive

Considering the CVs of board members, it was seen that past work experience and education level of those are at sufficient level.

c) Shareholders, Subsidiaries & Affiliates

As of FYE2017, the Company's shareholder structure has changed and Lider Faktoring A.Ş. became sole shareholder of Destek Varlık. Besides, the Company's paid-in capital was increased from TRY 10mn to TRY 20mn in cash.

Shareholder Structure of Destek Varlık Yönetim A.Ş.

Name	2017	2016
Lider Faktoring A.Ş.	100.00%	49.98%
Merkez Faktoring A.Ş.	-	49.98%
Nedim Menda	-	0.01%
Jak Sucuz	-	0.01%
Namık Bahri Uğraş	-	0.01%
Erhan Özçelik	-	0.01%

Lider Faktoring's shareholder structure remained same in 2017 and the distribution is provided below.

Shareholder Structure of Lider Faktoring A.Ş.

Name	2017
Nedim Menda	34.85%
Raşel Elenkave	11.34%
Jak Sucuz	10.20%
Credit Suisse BV Netherlands	9.90%
Other	18.71%
Public	15.00%

Lider Faktoring is one of the non-bank leading factoring companies in Turkey and its shares are traded in Borsa Istanbul. It's paid-in capital is TRY 30mn and Lider stands out with total factoring volume of TRY 2.7bn and total asset size of TRY 1.3bn.

d) Corporate Governance

The NPL asset management sector in Turkey is regulated by The Banking Regulation and Supervision Agency (BRSA). Under BRSA regulations, companies are expected to approach a certain level of standard in transparency and accountability. Destek Varlık is not listed on the Borsa Istanbul but issued bond and therefore is subject to some of the requirements of Capital Market Board. The Company prepares its financial statements in line with the standards pointed out by the BRSA.

The objective of BRSA's regulations are to maintain principles and procedures concerning the running of NPL asset management market. Destek Varlık has successfully adjusted its practices to align with BRSA regulations. Moreover, the Company implements procedures to ensure transparency considering its bond issuances in the Turkish bond market. Financial records and governance practices are in line with the international standards and are audited by independent entities. The audited financial statements are disclosed to public through the Company website and the Public Disclosure Platform.

e) The Company & Its Group Strategies

The business model of Destek Varlık is based on the purchase of receivables from banks and other financial institutions and the collection of these receivables from the debtor. In this process, the Company seeks to maximize

profit margins by focusing on productivity. Keeping customer satisfaction at the top level for the capture of advantageous prices in the purchase of receivables and for maximizing the collection is important for the profitability of Destek Varlık.

The main shareholder of the Company, Lider Faktoring A.Ş.'s sectoral experience stands out as a strategic advantage for Destek Varlık.

5. Sector Overview & Operational Environment

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 from TRY10mn.
- 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 10% 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. Non-performing loans portfolio by the banks between 2013- 2017 is shown below.

Non-Performing Loans	2013	2014	2015	2016	2017
Dev. & Investment Banks	425	481	479	602	732
Participation Banks	2,261	3,190	4,335	3,175	3,392
Deposit-Government Banks	8,251	10,449	12,024	15,770	18,988
Deposit-Foreign Banks	6,734	7,467	14,936	17,287	21,936
Deposit-Domestic Private Banks	11,950	14,838	15,766	21,046	22,926
Total (000,000/TRY)	29,622	36,426	47,541	57,880	64,585

Source: BRSA

Sectorial financial disclosure statements of year-end 2017 are not disclosed by BRSA yet. 2017 data was created by 7 main companies (**Destek Varlık, Güven Varlık, Final Varlık, Mega Varlık, Vera Varlık, Hayat Varlık, Sümer Varlık**) for sector comparison which dominate the market with approximately 80% market share.

*Balance Sheet (TRY/000)	FYE2017	FYE2016
Total earning assets	2,613,575	2,307,925
Non-earning assets	513,768	363,327
Total assets	3,127,343	2,671,252
Cost bearing resources	2,061,689	1,851,701
Non-cost bearing resources	254,680	180,127
Equity	810,974	639,424
Total liabilities and equity	3,127,343	2,671,252

Source: BRSA - *Including 7-AMCs

As of FYE2017, the total asset size of 7-Asset Management Companies was TRY 3.13bn, with an equity of TRY 778mn. Throughout its over 10-year history, the Sector has maintained a consistent growth trend. Earning Assets constitute the largest item among the sector’s assets with a share of 83.57%, whilst cost bearing resources enjoyed the largest share among its resources with a 65.92% 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. The two main largest NPL AMCs, Güven and Hayat Varlık (Turkasset), dominate the market with approximately 50% market share. A new legislation has been published in January, 2017 authorising the BRSA to resolve the principles of state banks’ such as T.C. Ziraat Bankası A.Ş., Türkiye Halk Bankası A.Ş. and Türkiye

Vakıflar Bankası T.A.O. receivable sales to AMCs. State banks' portfolios are expected to be traded in the market.

Recent legislative regulations reinforced the representative capability, consisting of 15 NPL AMCs, by gathering them under a single roof. 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.

Asset Management Companies – December 2017

1	Birleşim Varlık Yönetim A.Ş.
2	Destek Varlık Yönetim A.Ş.
3	Efes Varlık Yönetim A.Ş.
4	Emir Varlık Yönetim A.Ş.
5	Final Varlık Yönetim A.Ş.
6	Güven Varlık Yönetim A.Ş.
7	İstanbul Varlık Yönetim A.Ş.
8	Mega Varlık Yönetim A.Ş.
9	Hayat Varlık Yönetim A.Ş.
10	Merkez Varlık Yönetim A.Ş.
11	Hedef Varlık Yönetim A.Ş.
12	Met-Ay Varlık Yönetim A.Ş.
13	Sümer Varlık Yönetim A.Ş.
14	Vera Varlık Yönetim A.Ş.
15	Yunus Varlık Yönetim A.Ş.

Source: BRSA

6. Financial Foundation

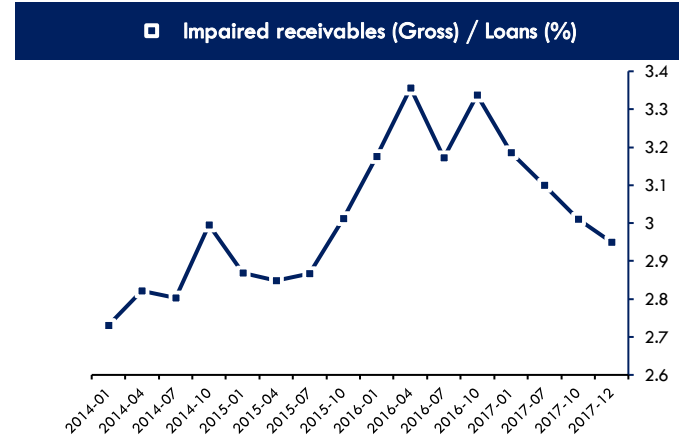
a) Financial Indicators & Performance

i. Indices relating to size

In 2017, when political tension remained high, Turkey's economy exhibited a fluctuating but positive scene with the contribution of the base effect. Depending on the loans granted under the CGF, the credit expansion and the growth in the banking sector were two important events of the year. The state of emergency that began with the coup attempt on July 15, 2016 and continues today, has played a role in the continuing indeterminacy and ambiguity in the markets. The liquidity shortage in this context has resulted in a pause in the activities of the real sector. Although a

negative scenario related to parity and growth is not expected in the first half of the current year, high inflation and interest rates continue to increase financing costs.

The graph below shows the trend of Non-Performing Loans of Turkish Banking Sector, which can be named as 'raw material' for asset management companies.



It is seen that the banking receivables increase significantly in 2015 and 2016. As a result of this increase, it is expected that the tendency towards the sale of problematic receivables accumulated in the banks' balances is expected to increase and thus the asset management companies are thought to be in a suitable economic environment for increasing their asset size. In addition, even though the increase on the supply side of problematic receivables is likely to have a positive impact on the costs of asset management companies, the correct evaluation of the collection capabilities is being important for sustainability of profitability and asset quality.

Destek Varlık's total assets increased from TRY 111.8mn to TRY 123.8mn as of FYE2017. The new portfolio bought in 2017, amounted TRY 20mn, was the main stimulator of the aforementioned increase in asset size.

ii. Indices relating to profitability

As a company which is established in near past, 2013, Destek Varlık seized a good level of profitability. In 2017, the Company's earning-performance was positive and outstripped the previous year's results. Some of the indicators are provided in the table below.

Ratios (%)	2017	2016	2015
ROAA*	2.96	1.44	2.60
ROAE*	18.85	11.88	15.97
Total Income / Equity (avg.)	79.95	123.82	100.63
Total Income / Assets (avg.)	12.54	15.05	16.40
Total Expenses/ Liabilities (avg.)	11.33	9.05	11.91
Collections / Total Portfolio	28.15	25.20	21.70

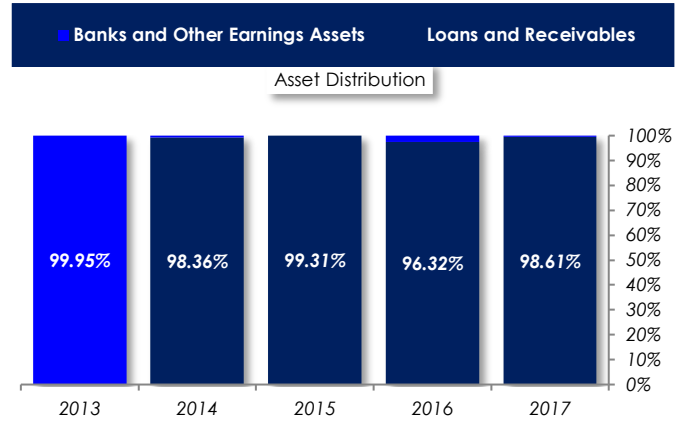
*Based on pre-tax profit

Closing 2015 and 2016 with a net profit of over TRY 1mn, Destek Varlık reached a net profit of TRY 2.76mn in 2017. While the profitability was increasing in 2017, the Company continued to expand its portfolio with new purchases. In 2017, collections, which are the primary factor affecting the profitability of the Company, have been increased by TRY 6mn compared to the previous year. The ratio of collections to total portfolio value in 2016 was 25.20% and this figure elevated to 28.15% in 2017. The increase in collections are both affected by the quality of the portfolio purchased and the better operational efficiency. The Company's projected collections for the year of 2017 to 2023 was calculated as TRY 200mn and this figure was TRY 180mn for the previous year, as noted in audited financial report. As long as the projected collectable amount of portfolio floats around these mentioned levels, the Company's profitability level can be expected to be sustainable.

Destek Varlık, which produced TRY 2.7mn of cash in the year of 2016, was unable to generate positive cashflow in 2017. Main rationale behind the negative cash flow was that the new portfolio purchases and new financing operations led to cash out, despite the paid-in capital increase in cash. Nevertheless, the Company continued to carry positive cash balance as of FYE2017.

b) Asset quality

Below is the graph showing the asset composition. As parallel to previous years, the Company's assets are primarily consisted of earning assets which are loans purchased. In 2017, the Company completed a buying deal of problematic loans from banks amounted TRY 20mn. With this purchase, Destek Varlık's total asset size reached to TRY 123.8mn.



The Company's asset quality is linked to two main factors. One is the valuation and collection projections related to the loans in the portfolio. The Company computes the net present value (NPV) of the overdue receivables at the effective interest rate calculated over the collections projections at the initial purchase date. While the positive values between the calculated collection projection of the loan portfolio and the NPV of the portfolio are recorded as 'interest received from the loans', and provisions are made for the negative values. Therefore, the higher projections lead to lower provisions thus the portfolio becomes healthier. The collection projections are made by Destek Varlık itself, based on the market experience and calculations.

Another factor for the asset quality reveals during the process of purchasing the loans. Obviously, the Company's projections may not to be equal to the realized values and the portfolio may be at worse than the expected collection capacity. In order to prevent the likelihood of encountering a less healthy portfolio, the Company should purchase the loans at better deals. The figures below show the ratios calculated as cost of portfolio divided by the original value of the loans.

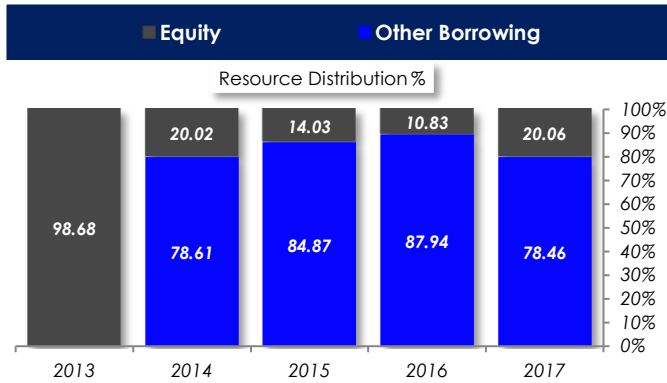
	2017	2016	2015	2014
Purchasing Ratio (%)	6.64	8.49	15.86	16.91

As seen on the table, Destek Varlık paid less money for a unit of loan throughout the years. It indicates that in a case where the collection ability of the portfolio decreases, the Company will have an extra room to absorb possible losses in asset quality.

The provision allocated for non-performing loans in the portfolio was TRY 128k in 2017, corresponding to 1% of total portfolio (2016: 99k). Even though this figure is relatively small compared to total portfolio, it may be suggested that it is a pressure on equity. However, the Company's current collection projections and profitability figures are at a level where such potential pressure can be carried out successfully. In this context, it has come to the conclusion that this provision level is not a threat to the asset quality of Destek Varlık.

c) Funding & Adequacy of Capital

Destek Varlık's paid-in capital was increased from TRY 10mn to TRY 20mn in 2017. The Company's total equity was TRY 24.8mn, corresponding 20% of total assets.



The remaining 4 out of 5 of assets are financed by external resources. The Company's primary external resource is bank loans. Destek Varlık works with various banks within Turkey and each are defined several lines. As of FYE2017, the Company's total bank loans were TRY 85mn (Short Term: TRY 52mn, Long Term: TRY 33mn). In addition to bank loans, Destek Varlık diversified its funding sources in 2017 by issuing bond. As of reporting date, the Company holds a coupon bond amounted TRY 12mn.

Following the regulation mandated by BRSA about minimum capital requirements, the Company doubled its paid-in capital in 2017 and this cash injection positively affected the Company's funding structure. Plus, the bond issuance led Destek Varlık to diversify its external resources, enabling them to actively manage financial expenses.

7. Risk Profile and Management

Since the Company is in the status of 'asset management company', it is not subject to the credit, market and operational risk reporting that the banks are subject to. In this context, while there is limited information on those risk in the year-end audit report, the JCR Eurasia Rating has conducted studies on these risks.

a) Credit Risk

The ability to of Destek Varlık to convert problematic receivables into a healthy and efficient return is directly related to the active monitoring of the Company's quality of receivables. The risk level of the receivables is monitored by making active assessments regarding the collection capabilities in the analysis made for the contents both before and after purchasing.

The debts of the credits in the Company's portfolio do not concentrate on any sector or debtor.

b) Market Risk

Destek Varlık's market risk is divided into two categories: currency risk and interest rate risk.

Currency Risk

The ratio of foreign currency assets held by the Company in the balance sheet at the end of 2017 is quite low and negligible. As of the end of 2017, the majority of the loan portfolio purchased by Destek Varlık, whose passive obligations are entirely in Turkish Lira, is also in Turkish Lira. In this context, it is concluded that the Company is not exposed to currency risk.

Interest Rate Risk

When Destek Varlık's is balance sheet is analyzed, it is seen that the main structure that can be affected by the change in market interest rates is the account of the loan and debts received. Given the anticipation of the macroeconomic outlook for the year 2018 that the market interest rates will increase, it is obvious that interest expenses have a potential of upward trend and profitability will be adversely affected. On the other hand, due to the indirect increase in interest receivables accumulated over the loan portfolio acquired as a result of interest rate changes in the market, the Company has a natural hedge in terms of interest rate.

c) Liquidity Risk

At the basis of the Destek Varlık in liquidity management is the balance between the collections from the purchased loans and the repayment period of the loans used from the banks. When the company's contractual revenues and projections and liabilities to be paid together are classified according to their maturities, the liquidity surplus of 2017 is seen to be around TRY 24.8mn (2016: TRY 12.2mn). The loan maturity structure of the Company was 61.6% short term and 38.4% long term. These figures and the current balance sheet structure show that the liquidity risk the Company is exposed to is at a manageable level.

d) Operational, Legal Regulatory & Other Risks

When the business model of Destek Varlık is evaluated, the operational risks are predominantly attributable to the risks for legal transactions. The Company has a well-organized and adequately equipped legal unit. Destek Varlık implemented necessary precautions about legal mistakes in the restructuring and collection processes and the losses that may arise from the negligence that may be experienced in the customer relations.

8. Budget & Debt Issue

The Company's projections for the year of 2017 were stated in the previous credit rating report. The realized figures of the 2017 is compared with the aforementioned projections below:

TRY (000)	2017 Projected	2017 Realized
Total Assets	124,060	123,786
Liabilities	100,574	98,951
Equity	23,486	24,835
Net Profit	1,374	2,763

Destek Varlık's forecasts almost matched the realized values in 2017, and the Company's net profit projection was quite modest in previous year. It can be said that the Company's financial performance in 2017 was within the expected interval.

Destek Varlık's projected balance sheet for the year of 2018 and 2019 are provided below together with the realized values of 2017.

Projected Balance Sheet

(TRY 000)	2017R	2018F	2019F
Cash & Cash Equivalent	716	13	1
Loans	121,807	132,926	134,466
Non-Performing Loans	121,935	133,053	134,594
Provisions (-)	128	128	128
Tangible Assets	787	577	561
Intangible Assets	368	242	222
Other	108	-	-
Total Assets	123,786	133,758	135,251
Borrowed Loans	85,161	78,845	75,039
Issued Bonds	11,962	24,037	24,000
Other	1,827	1,522	1,648
Equity	24,836	29,354	34,564
Paid-in Capital	20,000	20,000	20,000
Net Profit	2,763	4,518	5,211
Other	2,073	4,836	9,353
Total Liabilities and Equity	123,786	133,758	135,251

According to the projections for the following years, Destek Varlık expects a stable growth in loan portfolio and steep increase in net profit figures thanks to expected collections. In 2017, the Company doubled its paid-in capital for alignment with BRSA regulations and does not plan any further capital injection for 2018 and 2019. The net profits to be added on equity will be an addendum to asset quality. Plus, Destek Varlık plans to increase the share of bond issuances in its balance sheet while the borrowings from banks will be diminishing. As long as the Company's debt level remains same, additional bond issuances are not expected to create extra burden on the balance sheet. The expected increase in profitability and asset quality sound realistic together with the comparison of the Company's successful projection-realization matching in previous year.

Destek Varlık's borrowings are diversified with bond issuances. The Company issued its first bond in December, 2017. Details of the bond presented below:

ISSUED BONDS

Issue Date	Amount (TRY)	Maturity Date	Status
26.12.2017	12,000,000	25.06.2019	On Track
Total	12,000,000		

As there are no additional legal and/or financial collateral guarantees provided separately for the repayment of the bond issued by Destek Varlık, 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 which are **'BBB+ (Trk)'** and **'A-2 (Trk)'**.

DESTEK VARLIK YÖNETİM A.Ş. BALANCE SHEET - ASSET (000)	FYE 2017 USD (Converted)	FYE 2017 TRY (Original)	FYE 2017 TRY (Average)	FYE 2016 TRY (Original)	FYE 2016 TRY (Average)	FYE 2015 TRY (Original)	FYE 2015 TRY (Average)	FYE 2014 TRY (Original)	As % of 2017 Assets (Original)	As % of 2016 Assets (Original)	As % of 2015 Assets (Original)	FYE 2017 Growth Rate %	FYE 2016 Growth Rate %	FYE 2015 Growth Rate %
A- TOTAL EARNING ASSETS (I+II+III)	32,204	122,712	116,601	110,490	94,233	77,976	62,772	47,567	99.13	98.82	99.31	11.06	41.70	63.93
I-LOANS AND LEASING RECEIVABLES (net)	32,034	122,062	114,876	107,690	92,833	77,976	62,572	47,167	98.61	96.32	99.31	13.35	38.11	65.32
a) Short Term Loans	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
b) Lease Assets	32,067	122,190	114,990	107,789	92,916	78,042	62,605	47,167	98.71	96.40	99.39	13.36	38.12	65.46
c) Medium & Long Term Loans	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
d) Over Due Loans	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
e) Others	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
f) Receivable from Customer due to Brokerage Activities	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
g) Allowance for Loan and Receivables Losses (-)	-34	-128	-114	-99	-83	-66	-33	0	-0.10	-0.09	-0.08	29.29	50.00	n.a
II- OTHER EARNING ASSETS	171	650	1,725	2,800	1,400	0	200	400	0.53	2.50	n.a	-76.79	n.a	-100.00
a) Balance With Banks -Time Deposits	171	650	1,725	2,800	1,400	0	200	400	0.53	2.50	n.a	-76.79	n.a	-100.00
b) Money Market Placements	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
c) Reserve Deposits at CB (*)	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
d) Balance With CB- Demand Deposits	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
III- SECURITIES AT FAIR VALUE THROUGH P/L	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
a) Treasury Bills and Government Bonds	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
b) Other Investment	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
c) Repurchase Agreement	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
B- INVESTMENTS IN ASSOCIATES (NET) + EQUITY SHARE	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
a) Investments in Associates (Net)	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
b) Equity Share	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
C- NON-EARNING ASSETS	282	1,074	1,197	1,320	931	542	464	386	0.87	1.18	0.69	-18.64	143.54	40.41
a) Cash and Cash Equivalents	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
b) Balance With Banks - Current Accounts	17	66	102	138	185	231	158	85	0.05	0.12	0.29	-52.17	-40.26	171.76
c) Financial Assets at Fair Value through P/L	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
d) Accrued Interest from Loans and Lease	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
e) Other	265	1,008	1,095	1,182	747	311	306	301	0.81	1.06	0.40	-14.72	280.06	3.32
- Intangible Assets	97	368	191	14	10	6	8	10	0.30	0.01	0.01	2,528.57	133.33	-40.00
- Property and Equipment	140	532	275	17	19	21	22	22	0.43	0.02	0.03	3,029.41	-19.05	-4.55
- Deferred Tax	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
- Other	28	108	630	1,151	718	284	277	269	0.09	1.03	0.36	-90.62	305.28	5.58
TOTAL ASSETS	32,486	123,786	117,798	111,810	95,164	78,518	63,236	47,953	100.00	100.00	100.00	10.71	42.40	63.74

DESTEK VARLIK YÖNETİM A.Ş. BALANCE SHEET LIABILITIES & SHAREHOLDERS' EQUITY (000)	FYE	FYE	FYE	FYE	FYE	FYE	FYE	FYE	As % of	As % of	As % of	FYE	FYE	FYE
	2017	2017	2017	2016	2016	2015	2015	2014	2017	2016	2015	2017	2016	2015
	USD	TRY	TRY	TRY	TRY	TRY	TRY	TRY	Assets	Assets	Assets	Growth	Growth	Growth
	(Convert)	(Original)	(Average)	(Original)	(Average)	(Original)	(Average)	(Original)	(Original)	(Original)	(Original)	Rate %	Rate %	Rate %
A- COST BEARING RESOURCES (I+II)	25,489	97,123	97,722	98,321	82,478	66,635	52,167	37,698	78.46	87.94	84.87	-1.22	47.55	76.76
I- DEPOSIT	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
a) TL Deposit	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
b) FC Deposit	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
c) FC & LC Banks Deposits	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
II- BORROWING FUNDING LOANS & OTHER	25,489	97,123	97,722	98,321	82,478	66,635	52,167	37,698	78.46	87.94	84.87	-1.22	47.55	76.76
a) Borrowing From Domestic Market	22,350	85,161	91,741	98,321	82,478	66,635	52,167	37,698	68.80	87.94	84.87	-13.38	47.55	76.76
b) Borrowing From Overseas Markets	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
c) Borrowing from Interbank	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
d) Securities Sold Under Repurchase Agreements	3,139	11,962	5,981	0	0	0	0	0	9.66	n.a	n.a	n.a	n.a	n.a
e) Subordinated Loans & Others	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
B- NON-COST BEARING RESOURCES	480	1,828	1,603	1,377	1,123	868	761	654	1.48	1.23	1.11	32.75	58.64	32.72
a) Provisions	124	474	449	423	348	272	174	75	0.38	0.38	0.35	12.06	55.51	262.67
b) Current & Deferred Tax Liabilities	309	1,177	982	787	649	510	514	517	0.95	0.70	0.65	49.56	54.31	-1.35
c) Trading Liabilities (Derivatives)	46	177	141	104	78	51	37	23	0.14	0.09	0.06	70.19	103.92	121.74
d) Other Liabilities	0	0	32	63	49	35	37	39	n.a	0.06	0.04	-100.00	80.00	-10.26
C- TOTAL LIABILITIES	25,969	98,951	99,325	99,698	83,601	67,503	52,928	38,352	79.94	89.17	85.97	-0.75	47.69	76.01
D- MINORITY INTEREST	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
E- EQUITY	6,518	24,835	18,474	12,112	11,564	11,015	10,308	9,601	20.06	10.83	14.03	105.04	9.96	14.73
a) Prior Year's Equity	3,179	12,112	11,564	11,015	10,308	9,601	9,551	9,501	9.78	9.85	12.23	9.96	14.73	1.05
b) Equity (Added From Internall & External Resources At This Year)	2,614	9,960	4,980	0	0	0	0	0	8.05	n.a	n.a	0.00	n.a	n.a
c) Profit & Loss	725	2,763	1,930	1,097	1,256	1,414	757	100	2.23	0.98	1.80	151.87	-22.42	1,314.00
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	32,486	123,786	117,798	111,810	95,164	78,518	63,236	47,953	100.00	100.00	100.00	10.71	42.40	63.74
(*) This item is included in Other Item	USD Rates 1=TRY	3.8104		3.5318		2.9076		2.3189						

DESTEK VARLIK YÖNETİM A.Ş.
INCOME STATEMENT
(000) TRY

	2017	2016	2015	2014	2013
Net Interest Income	14,708.00	13,192.00	9,898.00	4,638.00	35.00
a) Interest Income	28,948.00	19,702.00	15,915.00	7,240.00	35.00
b) Interest Expense	14,240.00	6,510.00	6,017.00	2,602.00	0.00
Net Fee and Commission Income	-113.00	-51.00	-25.00	-58.00	0.00
a) Fee and Commission Income	0.00	0.00	0.00	0.00	0.00
b) Fee and Commission Expense	113.00	51.00	25.00	58.00	0.00
Total Operating Income	174.00	1,177.00	500.00	0.00	0.00
Net trading income (+/-)	0.00	0.00	0.00	0.00	0.00
Foreign Exchange Gain or Loss (net) (+/-)	0.00	0.00	454.00	0.00	0.00
Gross Profit from Retail Business	0.00	0.00	0.00	0.00	0.00
Premium income from insurance business	0.00	0.00	0.00	0.00	0.00
Income on Sale of Equity Participations and Consolidated Affiliates	0.00	0.00	0.00	0.00	0.00
Gains from Investment Securities (Net)	0.00	0.00	0.00	0.00	0.00
Other Operating Income	174.00	1,177.00	46.00	0.00	0.00
Taxes other than Income	0.00	0.00	0.00	0.00	0.00
Dividend	0.00	0.00	0.00	0.00	0.00
Provisions	29.00	5,377.00	2,421.00	0.00	0.00
Provision for Impairment of Loan and Trade Receivables	29.00	5,377.00	2,421.00	0.00	0.00
Other Provision	0.00	0.00	0.00	0.00	0.00
Total Operating Expense	11,258.00	7,567.00	6,306.00	4,202.00	534.00
Salaries and Employee Benefits	4,988.00	3,423.00	2,918.00	2,262.00	477.00
Depreciation and Amortization	313.00	13.00	9.00	9.00	0.00
Other Expenses	5,957.00	4,131.00	3,379.00	1,931.00	57.00
Profit from Operating Activities before Income Tax	3,482.00	1,374.00	1,646.00	378.00	-499.00
Income Tax – Current	0.00	0.00	0.00	0.00	0.00
Income Tax – Deferred	719.00	277.00	232.00	278.00	0.00
Net Profit for the Period	2,763.00	1,097.00	1,414.00	100.00	-499.00
Total Income	14,769.00	14,318.00	10,373.00	4,580.00	35.00
Total Expense	11,258.00	7,567.00	6,306.00	4,202.00	534.00
Provision	29.00	5,377.00	2,421.00	0.00	0.00
Pre-tax Profit	3,482.00	1,374.00	1,646.00	378.00	-499.00

DESTEK VARLIK YÖNETİM A.Ş.
FINANCIAL RATIOS %

FY **FY** **FY**
2017 **2016** **2015**

I. PROFITABILITY & PERFORMANCE

1. ROA - Pretax Profit / Total Assets (avg.)	2.96	1.44	2.60
2. ROE - Pretax Profit / Equity (avg.)	18.85	11.88	15.97
3. Total Income / Equity (avg.)	79.95	123.82	100.63
4. Total income / Total Assets (avg.)	12.54	15.05	16.40
5. Provisions / Total Income	0.20	37.55	23.34
6. Total Expense / Total Liabilities (avg.)	11.33	9.05	11.91
7. Net Profit for the Period / Total Assets (avg.)	2.35	1.15	2.24
8. Total Income / Total Expenses	131.19	189.22	164.49
9. Non Cost Bearing Liabilities + Equity- Non Earning Assets / Total Assets	20.67	10.88	14.44
10. Non Cost Bearing Liabilities - Non Earning Assets / Total Assets	0.61	0.05	0.42
11. Total Operating Expenses / Total Income	76.23	52.85	60.79
12. Net Interest Margin	12.61	14.00	15.77
13. Operating ROAA (avg.)	15.04	8.28	12.12
14. Operating ROAE (avg.)	95.93	68.18	74.34
15. Interest Coverage – EBIT / Interest Expenses	124.45	121.11	127.36
16. Net Profit Margin	18.71	7.66	13.63
17. Gross Profit Margin	23.58	9.60	15.87
18. Market Share in Asset Management	0.00	0.00	0.00
19. Market Share in Entire Banking System	0.00	0.00	0.00
20. Growth Rate	10.71	42.40	63.74

II. CAPITAL ADEQUACY (year end)

1. Equity Generation / Prior Year's Equity	82.23	0.00	0.00
2. Internal Equity Generation / Previous Year's Equity	22.81	9.96	14.73
3. Equity / Total Assets	20.06	10.83	14.03
4. Core Capital / Total Assets	0.00	0.00	0.00
5. Supplementary Capital / Total Assets	0.00	0.00	0.00
6. Tier 1 / Risk Weighted Asset	0.00	0.00	0.00
7. Capital / Total Assets	0.00	0.00	0.00
8. Own Fund / Total Assets	0.00	0.00	0.00
9. Standard Capital Adequacy Ratio	0.00	0.00	0.00
10. Surplus Own Fund	0.00	0.00	0.00
11. Free Equity / Total Assets	19.34	10.80	13.99
12. Equity / Total Guarantees and Commitments + Equity	97.56	95.60	94.27

III. LIQUIDITY (year end)

1. Liquidity Management Success (On Demand)	100.00	100.00	100.00
2. Liquidity Management Success (Up to 1 Month)	100.00	100.00	100.00
3. Liquidity Management Success (1 to 3 Months)	100.00	100.00	100.00
4. Liquidity Management Success (3 to 6 Months)	100.00	100.00	100.00
5. Liquidity Management Success (6 to 12 Months)	100.00	100.00	100.00
6. Liquidity Management Success (Over 1 Year & Unallocated)	100.00	100.00	100.00

IV. ASSET QUALITY

1. Loan and Receivable's Loss Provisions / Total Loans and Receivables	0.10	0.09	0.08
2. Total Provisions / Profit Before Provision and Tax	0.83	79.65	59.53
3. Impaired Loans / Gross Loans	0.00	0.00	0.00
4. Impaired Loans / Equity	0.00	0.00	0.00
5. Loss Reserves for Loans / Impaired Loans	0.00	0.00	0.00
6. Total FX Position / Total Assets	0.00	0.00	0.01
7. Total FX Position / Equity	0.00	0.01	0.08
8. Assets / Total Guarantees and Commitments + Assets	99.50	99.50	99.15

Previous Rating Results Issued by JCR-ER

		April 28, 2017		
		Long Term	Long Term	
International	Foreign Currency	N/A	N/A	
	Local Currency	N/A	N/A	
	Outlook	FC	N/A	N/A
		LC	N/A	N/A
National	Local Rating	BBB (Trk)	A-3 (Trk)	
	Outlook	Stable	Stable	
	Issue Rating	BBB (Trk)	A-3 (Trk)	
Sponsor Support		2	-	
Stand-Alone		B	-	
Sovereign*	Foreign Currency	BBB-	-	
	Local Currency	BBB-	-	
	Outlook	FC	Stable	-
		LC	Stable	-
		(*) Affirmed by Japan Credit Rating Agency, on October 7, 2016		
Analyst(s)		Mr. Utku Karagülle		