SAHA
Corporate Governance and
Credit Rating Services Inc.

12th October 2017

Credit Rating

Long Term (National):

(TR) AA-

Outlook:

Stable

Short Term (National):

(TR) A1+

Outlook:

Stable

TEB Finansman A.Ş.
Gayrettepe Mahallesi Yener
Sokak No:1 Kat:3-4 34349
Beşiktaş / İstanbul

Tel:+90 (0212) 355 20 00
+90 (0212) 636 39 00
www.tebcetelem.com.tr

TEB FİNANSMAN A.Ş.

Rating Summary

TEB Finansman A.Ş. (TEB Cetelem) is a non-bank finance company operating in Turkey since 1995. The Company is a joint partnership of BNP Paribas Personal Finance and TEB Holding A.Ş.

The Company's main activity is vehicle loans and provides financing for various automotive brands.

Following our comparative peer analysis within the industry, examination of financial/operational risks carried by the Company, as well as the Company's domestic market position and the current analysis of the finance and automotive industries, TEB FİNANSMAN A.Ş.'s Short Term Rating (National) of **(TR) A1** and the Long Term Rating (National) of **(TR) A+** for the previous rating period has been upgraded as Short Term Rating (National) of **(TR) A1+** and Long Term Rating (National) of **(TR) AA-**.

Strengths and Risks

Strengths

- Global strategic position of the foreign partner in personal finance and Company experience in the domestic market.
- Increased operational efficiency.
- High liquidity as a result of targeted policies.
- Low NPL rate.
- Low exchange rate risk.

Risks

- Stagnant performance in the domestic automotive demand
- Probable impact of realized and planned tax increases, interest rate hikes and volatility of the exchange rate on demand.

Outlook

The Company has increased the volume of its financing loans from TL 1.27 billion to TL 3.02 billion in the past five years and is the fourth biggest company in terms of credit volume in the automotive financing market.

TEB Cetelem has settled to a market share which, as of June 2017 accounts to 4.1% of all new vehicle sales and 11.9% of vehicle financing companies' total credit volume. The Company's financial balance and profitability is on sound basis.

Given the general economic situation, industry trends and Company performance, the Company outlook has been evaluated as "Stable".

Global Economic Outlook

The global growth forecast for 2017 has been revised as 3.5% from 3.3% in the June 2017 Interim Global Economic Outlook Report released by the Organization for Economic Co-operation and Development (OECD). The reason for the foreseeable improvement is the increase in confidence in the markets, visible signs of recovery from low levels in trade and investment, as well as the global growth effects of economic recovery in commodity producer economies. The same report also points to an increase in demand for high-tech products and an increase in capital renewal investments, as well as bringing upside risks to attention. It is stated in the report that despite a relative increase, the labor market has not yet reached the desired employment levels and the pressure on wages still persists. Attention is drawn to the risks arising from the high and growing credit volume, the rising housing prices and the high interest rate intervals.

In the July 2017 Global Economic Outlook Update Report, The International Monetary Fund (IMF) on the other hand, has confirmed the global growth forecast for 2017 at 3.5% forecasting the growth for 2018 as 3.6%. The IMF, which has reduced its US growth expectation compared to April, has pointed out that the probability of achieving expansionary fiscal policies at adequate levels has weakened. In addition, the report raised EU Zone's growth forecast for 2017 from 1.7% to 1.9% and similarly revised upward the growth estimates for Japan and China. As noted in the report, the upward revision of the "Developing Markets and Developing EU Countries" category forecasts is predominantly originating from Turkey’s high growth performance supported by its export increases in the first quarter of 2017.

The report emphasizes that medium-term risks continue to feed downward expectations. Factors pointed out are; the uncertainty related to corporate tax cuts in the US in face of legal budget limits, the uncertainty surfaced by the Brexit process in the EU, the probability of a correction in stock markets and prospective risks as a result of volatility increase. Furthermore, the impact of low commodity prices on the income of related countries adds up to the prevailing uncertainty which is expected to extend for another while. The report also points to the possibility of a sudden economic slowdown in the event that the efforts to control excessive credit growth in China fails and the consequent negative effects which are bound to arise for regional and global economies. The geopolitical uncertainty in the region, especially after North Korea's nuclear weapon tests, is mentioned as an additional important risk factor.

According to the statement released by the Turkish Statistical Institute (TSI), the Turkish economy, which grew by 4.5% both in the first and second quarters of 2016, contracted by 1.8% in the third quarter due to the negative impact of the July 15 coup attempt and recovered by 3.5% in the last quarter. On a year to year basis, the overall growth rate for 2016 was recorded as 2.9%. Looking at this performance from the aggregate expenditures side, household consumption and investments performed poorly compared to the previous year, imports increased while exports shrank and growth of 2016 has been supported mainly by the increase in public expenditures. The World Bank's June 2017 European and Central Asia Regional Report highlighted that Turkey recovered much faster than expected from the shock experienced in 2016 as a result of which growth forecasts for 2017, 2018 and 2019 were revised upwards to 3.5%, 3.9% and 4.1% respectively.

On the other hand, in the first quarter of 2017, real growth rate was 5% compared to the same period of the previous year, while a YoY growth of 5.1% in the second quarter exceeded expectations. Contrary to the past year, this time the factors supporting the growth performance are household consumption, exports and investments, while public expenditures have decreased. In face of this performance, the estimates of Turkey's growth for 2017 have been revised upwards by various international institutions and banks to around 5%.

Despite clearing out considerable domestic political uncertainties, the constitutional amendment, which took place after the referendum of April 2017, entails a new agenda of massive and radical legislative revisions in addition to a presidential election set for 2019. A fact which shows that some uncertainty will continue to be in effect. In addition to the above, the possible regional developments in neighboring Syria and Iraq, the increased tension between the Gulf states and Qatar on the one hand and Iran on the other and the chilled relations with the EU assumes increasing risks for Turkey.

Inflation started to cast its shadow in 2017. The monthly CPI increase which fell to single-digits in July rose again to double-digits in August recording YoY 10.68%, and continued its upward trend climbing to YoY 11.20% in September. The weighted average annual increase in the CPI rose to 9.98% as of September, approaching two-digit figures. The YoY annual increase in PPI as of September was 16.28% and the weighted average annual increase rose to 13.26%.

The expanding credit volume as a result of the policy increase of the Credit Guarantee Fund limit is considered to have had a dominant impact on growth in the first half of 2017. On the other hand, the fact that the loans/deposits ratio is still as high as 120% indicates an ongoing risk factor. The impact of growth to increase in deposits is expected to have a positive impact on the loans/deposits ratio, which will be monitored in the upcoming period. Similarly, the cost-push increase in inflation which induced a hike in nominal commercial loan interest rates to 16% as of September from 12% at the beginning of the year is another risk factor to be monitored.

Non-bank Financing Industry

The Turkish non-bank financial sector is still in its development stage, contributing to the diversification, development and intensification of financial services. Yet its share in the financial system has been increasing every year. In particular, the innovations introduced by the "Financial Leasing, Factoring and Financing Companies Legislation" which entered into force on December 13, 2012 was crucial for the future of the industry. To this end, the Association of Financial Institutions was established on July 25, 2013. The activities of the Association aim to contribute to the development of the institutional structure of the industry and to increase standardization and transparency.

In the past year, the non-bank financial sector continued to grow as it did in previous periods. The consolidated data comparing year end 2016 to end of 2015 is as follows; Total assets increased by 21% reaching to TL 114.4 billion, the trading volume grew by 5% to TL 163.6 billion, receivables increased by 20% reaching to TL 102.9 billion, the equity size grew by 17.7% to TL 15.6 billion and the net profit jumped by 26% to TL 1.95 billion.

When we compare the fiscal year of 2016 of the Financing Companies to the previous year, we can observe the continuing growth momentum in the industry. The TL 19.1 billion of trading size which recorded a 39.7% growth in 2015 has increased by 16.2% in 2016, reaching over TL 22.2 billion. The asset size increase of 34.2% in 2015 has reached TL 32.8 billion in 2016 with an increase of 21%. Respectively, receivables increased by 17% to TL 27.8 billion.

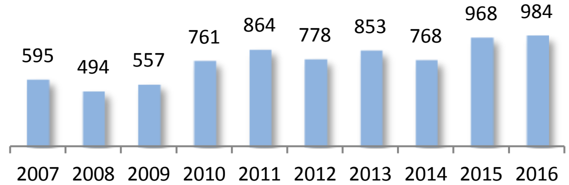
Year	Asset Size	Financing Loans	New Loans					Equity	Net Income
			Vehicles		Housing	Other	Total		
			Passenger	Commercial					
2012	11,618,970	10,734,230	3,862,694	2,385,583	289,594	113,443	6,651,313	904,240	154,130
2013	15,956,177	14,474,899	5,824,941	2,950,120	365,264	114,523	9,254,847	1,214,696	176,798
2014	20,285,547	18,053,437	4,900,527	8,454,058	356,265	37,595	13,748,444	1,392,484	214,053
2015	27,219,698	23,824,651	7,388,195	11,344,600	222,189	145,494	19,100,478	1,700,727	355,941
2016	32,827,878	27,854,835	9,315,143	9,870,518	31,715	2,968,379	22,185,754	2,734,958	358,405
2017/6	33,047,497	28,813,585	3,597,195	5,376,612	3,306	2,905,612	11,882,725	3,503,669	269,226

Source: Association of Financial Institutions

The total assets of the non-bank financial sector as of end of 2016 showed a growth of 21% compared to the previous year reaching TL 32.8 billion. Financing receivables has reached TL 27.9 billion with a growth rate of 17%. The sector's total equity increased by 60% over the same period reaching TL 2.7 billion and net profit increased by 1% to TL 358 million.

Financing companies in the field of automotive financing have overtook the bank financing volume for the first time in November 2015, and provided 51.6% of total vehicle financing as of June 2017.

Cars and Light Commercial Vehicles Domestic Retail Sales ('000' units)



The volatility of the automotive financing sector is driven by the demand volatility of the domestic automotive industry. The trend of rapid increase in the past few years can be followed by a decrease at a similar pace in line with the global economic outlook and changes in demand in the automotive industry. During the past two years we have been observing a stagnant performance. According to the data from the Association of Automotive Distributors, the total market for Turkish automobiles and light commercial vehicles increased by 1.62% to 983,720 units in 2016 compared to the previous year. While automobile sales reached 756,938 units in 2016 with a 4.32% increase compared to the previous year, while the light commercial vehicle market decreased by 6.45% to 226,782 units. In the first eight months of 2017, the Turkish automotive market shrank by 2.52% compared to the same period of 2016, resulting in a total of 569,076 units.

Company Overview

TEB Finansman A.Ş. (TEB Cetelem) is a non-bank finance company operating in Turkey since 1995. The Company is a joint partnership of BNP Paribas Personal Finance and TEB Holding A.Ş.

The Company's paid-in capital is TL 71,626,000 and its capital structure as of the date of our report is as follows:

TEB Finansman A.Ş. Shareholding Structure		
Shareholders	**Share Amount (TL)**	**Stake Held (%)**
BNP Paribas Personal Finance SA	61,300,797	85.58%
TEB Holding A.Ş	10,325,200	14.42%
Other	3	0.00%
Total Capital (One TL)	71,626,000	100.00%

TEB Finansman A.Ş. provides financing for real persons and legal entities. It benefits extensively from the global expertise in consumer finance and support of its global partner BNP Paribas Personal Finance along with its local partner TEB Holding A.Ş. and its associated group of companies.

BNP Paribas Personal Finance, who holds 86% of the Company's shares, is Europe's largest consumer finance company. BNP Paribas Personal Finance, a subsidiary of BNP Paribas Group, is a specialist in consumer finance working in the field of consumer credit. BNP Paribas Personal Finance who operates on 4 continents with 29,000 employees in 30 countries worldwide is a leader in French and European markets offering a wide range of consumer finanncing products under the brand names of Cetelem, Findomestic and AlphaCredit.

The Board of Directors of the Company is as follows:

TEB Finansman A.Ş. Board of Directors	
Members	**Title**
Jean Marc Paul BURESI	Chairman
Ayşe AŞARDAĞ	Vice-chairman
Alain Van GROENEDAEL	Member
Stephane HALYS	Member
Stephan BECOULET (*)	Member & General Manager

(*) - Appointed in accordance to the decision of the Board of Directors dated August 31, 2017.

As of the end of 2016, the Company, with 122 employees and 180 authorized dealers, has the following annual market shares among vehicle financing companies:

Market Share of Automotive Financing Sector Lending		
2014	**2015**	**2016**
11.6%	12.6%	12.2%

TEB Finansman A.Ş Comparative Balance Sheets (TL):

Assets	Dec. 31, 2015	Dec. 31, 2016	June 30, 2017
Cash Assets	226,576,000	224,767,000	210,248,000
Banks	11,241,000	420,936,000	378,664,000
Financing Loans	2,864,163,000	3,016,712,000	2,866,178,000
Non-performing Loans	43,784,000	63,808,000	61,074,000
Tangible Fixed Assets	272,000	239,000	323,000
Intangible Fixed Assets	2,595,000	2,604,000	2,765,000
Deferred Tax Assets	18,191,000	23,513,000	21,597,000
Other Assets	68,807,000	38,857,000	33,802,000
Total Assets	**3,235,629,000**	**3,791,436,000**	**3,574,651,000**

Liabilities	Dec. 31, 2015	Dec. 31, 2016	June 30, 2017
Loans Received	2,819,677,000	3,171,051,000	3,019,017,000
Securities Issued	61,408,000	200,790,000	139,303,000
Other Debt	10,892,000	21,088,000	12,711,000
Other Loan Capital	106,898,000	129,414,000	110,649,000
Taxes and Liabilities	9,600,000	7,317,000	6,091,000
Liability and Expense Provisions	57,642,000	58,085,000	53,435,000
Tax Liability	8,855,000	4,057,000	1,484,000
Equity	160,657,000	199,634,000	231,961,000
Paid-in Capital	71,626,000	71,626,000	71,626,000
Total Liabilities	**3,235,629,000**	**3,791,436,000**	**3,574,651,000**

TEB Finansman A.Ş Comparative Income Statements (TL):

Income Statement	2015	2016	2017/6
Income	307,765,000	434,126,000	228,553,000
Financing Expenses	-241,128,000	-367,388,000	-191,879,000
Operating Expense	-28,544,000	-37,026,000	-20,164,000
Gross Operating P/L	38,093,000	29,712,000	16,510,000
Other Operating Income	231,559,000	390,460,000	180,263,000
Provisions for non-performing Loans	-7,407,000	-16,528,000	-5,545,000
Other Operating Expense	-228,826,000	-354,165,000	-151,332,000
Net Operating P/L	33,419,000	49,479,000	39,896,000
Before Tax P/L on Continued Operations	33,419,000	49,479,000	39,896,000
Tax Provision for Continuing Operations	-5,752,000	-10,404,000	-7,569,000
Net P/L for the Period	27,667,000	39,075,000	32,327,000

Key Financial Indicators

The maturity structure of the loans is as follows (TL):

Financing Loans Structure					
2015			2016		
Up to 1 year	1 year & up	Total	Up to 1 year	1 year & up	Total
1,243,464,000	1,620,699,000	2,864,163,000	1,466,916,000	1,549,797,000	3,016,712,000

The Company funds its lending via banks loans and securities issued. As of the end of 2016, the size of the financing loans reached TL 3,016,000,000. As of June 2017, the current amount of the loans granted is TL 2,886,000,000. The Company's financial debt structure consists of bank loans amounting to TL 3,171,000,000 and securities issued amounting to TL 200 million. As of June 2017, the loans received were TL 3,019,000,000 and the securities issued were TL 139 million. As of the end of 2016 the total debt figure was TL 3,591,800,000 and as of end June 2017 it stood at TL 3,343,000,000.

Liquidity Ratios	2015		2016	
	TEB	Sector	TEB	Sector
(Liquid Assets + Short-term Receivables) / Current Liabilities	0.79	0.85	1.06	0.86
Liquid Assets / Financial Liabilities	0.08	0.09	0.19	0.11
Short Term Receivables / Total Receivables	0.43	0.40	0.49	0.38

Leverage and Operational Ratios	2015		2016	
	TEB	Sector	TEB	Sector
Total Debt / Equity	19.14	15.28	17.99	14.38
Operational Expenses / Total Assets	1.05%	1.81%	1.05%	1.66%
Interest Income / Loan Receivables	10.75%	10.29%	14.39%	12.42%

Profitability Ratios	2015		2016	
	TEB	Sector	TEB	Sector
Return on Assets (Net Profit / Average Assets)	1.02%	1.57%	1.11%	1.13%
Return on Equity (Profit / Average Equity)	18.85%	25.22%	21.69%	18.32%
Net Profit for the Period / Loan Receivables	0.97%	1.53%	1.30%	1.22%

Asset Quality	2015		2016	
	TEB	Sector	TEB	Sector
Special Provisions / Credit Receivables	0.26%	0.47%	0.55%	0.90%
Non-performing Loans / (Non-performing Loans + Loan Receivables)	1.78%	2.90%	2.80%	3.11%

The liquidity level rised considerably in 2016 as a result of a year-end liquid assets targeting in accordance with Group policies. The Company has increased its return on equity and net profit as of 2016. The NPL rations performing below the sector average is evaluated as a positive indicator for the Company.

Strengths and Risks

TEB Finansman A.Ş. is the joint affiliate of BNP Paribas Personal Finance SA, operating under the International Banking Services division of the global-scale BNP Paribas banking group and TEB Holding A.Ş., having the advantages of international sector experience in the field of vehicle financing. Financing the vehicles of a multitude of automotive brands, TEB Cetelem has revised its strategy and has consolidated its dealer channels in face with the ongoing stagnant demand which surfaced last year. It focused on diversifying its services such as second hand and fleet financing targeting dealers and increasing its operational efficiency. The Company has enhanced its liquidity in accordance with Group policies and performs with below sector average NPL rate. Furthermore, it does not face any significant exchange rate risks with its TL-based funding.

Relevant risk factors can be summed up as: The unfavourable demand effects due to the increase in Special Consumption Tax and the planned increase in Motor Vehicles Tax; The effects of the downgrading of Turkey's international credit rating below the investment grade; The increasing exchange rate volatility resulting with a rise to 12% of the benchmark interest rate causing commercial interest rates climbing to 16%.

Corporate Governance

Since TEB Finansman A.Ş.'s shares are not publicly traded, the Company is not subject to Capital Markets Board's (CMB) provisions of Communiqué on the Determination and Implementation of Corporate Governance Principles. However, our studies with respect to corporate governance practices shows that the Company has attained considerable compliance with the CMB's Corporate Governance Principles and has implemented some of the necessary policies and measures. The rights of shareholders and stakeholders are respected fairly. Even though the Company does not have any free float shares, it is subject to CMB and BIST (Borsa Istanbul) rules and regulations due to bond issuance and discloses its financial reports and material disclosures regularly on the Public Disclosure Platform. Public disclosure and transparency is at high levels and the structure and operation of the board of directors is built on a sound basis.

Methodology

SAHA's credit rating methodology is composed of quantitative and qualitative sections contributing to the final grade with specific weights. Quantitative analysis components consist of company's performance compared to the sector, analysis of the financial risks, and the assessment of cash flow projections in connection with the relevant financing tools. Comparative performance analysis of the sector determines the position of the company concerned in comparison with the sector firms' recent financial performances. Financial risk analysis covers the evaluation of the company's financial ratios on the basis of objective criteria. Liquidity risk, credit exposure, market risk, asset quality, profitability, operational efficiency, volatility and concentration are treated as sub-headings in this analysis. Finally, scenario analysis tackles the company's future base and stress scenario projections subject to scrutiny in the context of the firm's financing tools and assesses the risks of fulfillment of obligations.

Qualitative analysis covers operational issues such as sector and company risks as well as administrative risks in the context of corporate governance practices. Sector analysis evaluates the nature and rate of growth of the sector, its competitive structure, structural analysis of customers and creditors, and sensitivity of the sector to risks at home and abroad. Company analysis discusses market share and efficiency, growth trends, cost structure, service quality, organizational stability, access to domestic and foreign funding sources, off-balance sheet liabilities, accounting practices, and parent/subsidiary company relationships. In this context, the financial strength, reputation and strategic integration level of the company with major shareholders are also evaluated.

Corporate governance plays an important role in our methodology. The importance of corporate governance and transparency outshines once again in the current global financial crisis we witness. Our methodology consist of four main sections; shareholders, public disclosure and transparency, stakeholders, and board of directors. The corporate governance methodology of SAHA can be accessed at www.saharating.com.

Rating Definitions

Our long term credit rating results start from AAA showing the highest quality and continue all the way to the lowest rating of D (default). Plus (+) and minus (-) signs are used to make a more detailed distinction between the categories of AA and CCC.

Companies and securities rated with long-term AAA, AA, A, BBB and short-term A1 +, A1, A2, A3 categories should be considered "investment grade" by the market.

Short Term	Long Term	Rating Definitions
(TR) A1+	(TR) AAA (TR) AA+ (TR) AA (TR) AA-	The highest credit quality. Ability to meet financial obligations is extremely high. If securities; carries a little more risk than the risk-free government bonds.
(TR) A1	(TR) A+ (TR) A	Credit quality is very high. Very high ability to fulfill financial obligations. Sudden changes at the company and economic and financial conditions may increase investment risk, but not at a significant level.
(TR) A2	(TR) A- (TR) BBB+	High ability to fulfill financial obligations, but may be affected by adverse economic conditions and changes.
(TR) A3	(TR) BBB (TR) BBB-	Sufficient financial ability to fulfill its obligations, but carries more risk in adverse economic conditions and changes. If securities; has adequate protection parameters, but issuer's capacity to fulfill its obligations may weaken due to adverse economic conditions and changes.

Companies and securities rated with long-term BB, B, CCC, and short-term B, C categories should be considered "speculative" by the market.

(TR) B	(TR) BB+ (TR) BB (TR) BB-	Carries minimum level of speculative features. Not in danger in the short term, but face to face with negative financial and economic conditions. If securities; under the investment level, but on-time payment exist, or under less danger than other speculative securities. However, if the issuer's capacity to fulfill its obligations weakens, serious uncertainties may appear.
(TR) C	(TR) B+ (TR) B (TR) B-	Currently has the capacity to fulfill financial obligations, but highly sensitive to adverse economic and financial conditions. If securities; there is a risk of on-time payment. Financial protection factors can show high fluctuations according to the status of the economy, the sector, and the issuer.
(TR) C	(TR) CCC+ (TR) CCC (TR) CCC-	Well below the category of investment. In danger, and economic, sectoral and financial conditions should have a positive development to fulfill its financial obligations. If securities; there are serious uncertainties about the timely payment of principal and interest.
(TR) D	(TR) D	Event of default. Company cannot meet its financial obligations or cannot pay the principal and/or interest of the relevant securities.

Disclaimer

This Credit Rating Report has been prepared by Saha Kurumsal Yönetim ve Kredi Derecelendirme A.Ş. (SAHA Corporate Governance and Credit Rating Services, Inc.) in collaboration with TEB Finansman A.Ş. and is based on information disclosed to public by TEB Finansman A.Ş.

This report, conducted by SAHA A.Ş. analysts and based on their best intentions, knowledge base and experience, is the product of an in depth study of the available information which is believed to be correct as of this date. It is a final opinion about the overall credibility of the institutions and/or debt instruments they have issued. The contents of this report and the final credit rating should be interpreted neither as an offer, solicitation or advice to buy, sell or hold securities of any companies referred to in this report nor as a judgment about the suitability of that security to the conditions and preferences of investors. SAHA A.Ş. makes no warranty, regarding the accuracy, completeness, or usefulness of this information and assumes no liability with respect to the consequences of relying on this information for investment or other purposes.

SAHA A.Ş. has embraced and published on its web site (www.saharating.com) the IOSCO (International Organization of Securities Commissions) Code of Conduct for Credit Rating Agencies and operates on the basis of independence, objectivity, transparency, and analytic accuracy.

Contact:

S.Suhan Seçkin
suhan@saharating.com
S.Mehmet İnhan
minhan@saharating.com
Ömer Ersan
oersan@saharating.com

Saha Kurumsal Yönetim ve Kredi Derecelendirme A.Ş.
Valikonağı Cad., Hacı Mansur Sok., Konak Apt, 3/1, Nişantaşı, İstanbul
Tel: (0212) 291 97 91, Faks: (0212) 291 97 92 ● info@saharating.com ● www.saharating.com