

29 January 2019

Credit Rating

Rating
(National): Long Term

(TR) AA-

Outlook:

Stable

Rating
(National): Short Term

(TR) A1+

Outlook:

Stable

Koç Finansman A.Ş.

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Rating Summary

The principal activity of Koç Finansman A.Ş. is to provide loans for the purchase of all kinds of goods and services. It is established in Turkey as a Koç Group affiliate and it is the first finance company which acquired the "Financing Company Operating License". The Company is subject to the supervision and regulation of the Banking Regulation and Supervision Agency (BRSA) and has been operating under the provisions of the Law on Financial Leasing, Factoring and Financing Companies no. 6361 (the Law). Koç Finansman A.Ş. is a member of the Financial Leasing, Factoring and Financing Companies Association.

The Company provides financing primarily for the purchases of motor vehicles, along with durable consumer goods, services and education. In addition, it serves as an insurance broker for the loans which it provides and has the authority to issue mortgage loans.

In addition to the provision of financing for the purchase of all kinds of goods and services granted by the Law dated December 13, 2012, the Company also has the opportunity to undertake inventory financing, dealer financing, second hand sales financing and the like.

Following our comparative analysis of the sector and examination of financial/operational risks carried by the Company, as well as the Company's domestic market position Koç Finansman A.Ş.'s previous (National) short term rating of **(TR) A1+** and the long-term rating of **(TR) AA-** is reconfirmed.

Previous Rating (November 6, 2017): Short Term: **(TR) A1+**
Long Term: **(TR) AA-**

Strengths and Risks

Strengths

- Accumulated business experience and affiliation to the Koç Group of Companies,
- High and stable growth rate,
- Portfolio diversification strategy,
- Effective financial protection against cash flow risks,
- Extensive access to domestic and foreign funding sources and low risk of re-financing.

Risks

- Shrinking demand due to economic slowdown, exchange rate and inflation volatility,
- Dependence of its performance to the highly volatile automotive industry.

Outlook

The Company efficiently uses financial derivative instruments against the risks which it might be exposed to and hedges its foreign currency loans obtained from both domestic and foreign banks by using swaps, forward contracts and similar instruments in the derivatives market. It is observed that the financial structure of the Company can maintain its stable course against the fluctuations in the exchange and interest rate movements experienced in the sector. In this respect, we evaluate the Company's short and long-term outlook as 'stable'.

Methodology

SAHA's credit rating methodology is composed of quantitative and qualitative sections contributing to the final grade with specific weights. The quantitative analysis components consist of the Company's performance compared to industry peers, analysis of the financial risks, and the assessment of cash flow projections. Comparative performance analysis determines the relative position of the company as compared with industry peers' financial performances and industry averages. The financial risk analysis of our methodology covers the evaluation of the Company's financial ratios on the basis of objective criteria. Liquidity, leverage, asset quality, profitability, volatility and concentration are treated as sub-headings in this analysis. Finally, scenario analysis evaluates the Company's performance with respect to its capability to fulfill its obligations under the future projections of a base and a stress scenario.

The qualitative analysis covers operational issues such as industry and company risks as well as administrative risks in the context of corporate governance practices. The industry analysis evaluates factors like the nature and rate of growth of the industry, its competitive structure, structural analysis of customers and creditors, and sensitivity of the sector to risks at home and abroad. The company analysis evaluates market share and efficiency, trends and volatilities in key performance indicators, cost structure, service quality, organizational stability, access to domestic and foreign funding sources, off-balance sheet liabilities, accounting practices, and parent / subsidiary company relationships if any.

Corporate governance plays an important role in our methodology. The importance of corporate governance and transparency is once again revealed 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 grade and continue downward to the lowest rating of D (default). Plus (+) and minus (-) signs are used to make a more detailed distinction within categories AA to CCC.

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

Short Term	Long Term	Rating Definitions
(TR) A1+	(TR) AAA (TR) AA+ (TR) AA (TR) AA-	The highest credit quality. Indicates that ability to meet financial obligations is extremely high. For securities, it is an indication of no more than a slight additional risk as compared to 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 level and/or economic and financial conditions may increase investment risk, but not significantly.
(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 in face of 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 faces negative financial and economic conditions. If securities; below investment level, but on-time payments prevail, or under less danger than other speculative securities. However, if the issuer's capacity to fulfill its obligations weakens, serious uncertainties may unfold.
(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 in due payment. Financial protection factors can show high fluctuations depending on the conditions of the economy, the sector, and the issuer.
(TR) C	(TR) CCC+ (TR) CCC (TR) CCC-	Well below investment grade. In considerable danger of default. Fulfillment of its financial obligations depends on the positive performance of economic, sectoral and financial conditions. If securities; there are serious uncertainties about the timely payment of principal and interest.
(TR) D	(TR) D	Event of default. The company cannot meet its financial obligations or cannot pay the principal and/or interest of the relevant securities.

Disclaimer

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