

Structured Finance

(Preliminary Report)

Bond Issue

VARYAP Varlıbaşlar Yapı San. Tur.Yat.Tic. ve Elektrik Üretim A.Ş. – BOND ISSUE	
Type of Securities	Bonds
Originator	VARYAP Varlıbaşlar Yapı San. Tur.Yat.Tic. ve Elektrik Üretim A.Ş.
Issuer	VARYAP Varlıbaşlar Yapı San. Tur.Yat.Tic. ve Elektrik Üretim A.Ş.
Special Purpose Vehicle	None
Transferor	Tera Menkul Değerler A.Ş.
Servicer	Tera Menkul Değerler A.Ş.
Trustee	None
Guarantor	None
Entitled Party & Mortgagee	Türkiye Vakıflar Bankası T.A.O.
Custody	Merkezi Kayıt Kuruluşu A.Ş.
Issue Principal Size	Up to TRY 120 mn in 3 tranches: TRY 30 mn with 6-month maturity – return payable at maturity TRY 30 mn with 1-year maturity – monthly floating rate coupons TRY 60 mn with 18-month maturity – monthly floating rate coupons
Expected Rate of Return	Between the range of risk-free Turkish government bonds+ (280 - 480 Basis Points)
Principal Payment Frequency	At maturity
Tenor (Year)/ Final Maturity	18 months
Expected Offering Date	February 6, 2014
Average Life	13.5 months

VARYAP Varlıbaşlar Yapı San. Tur.Yat.Tic.ve Elek. Üretim A.Ş. – BOND ISSUE			Long Term	Short Term
International Foreign Currency			BBB-	A-3
National Local Currency			A-(Trk)	A-1 (Trk)
Sovereign*	Foreign Currency		BBB-	-
	Local Currency		BBB-	-
	Outlook	FC	Stable	-
		LC	Stable	-

*Assigned by Japan Credit Rating Agency, JCR on May 23, 2013

Overview

“VARYAP Varlıbaşlar Yapı San. Tur.Yat.Tic. ve Elektrik Üretim A.Ş.” (hereinafter to be referred to as **Varyap**, the **Originator** or the **Issuer**) (the latest rating action by JCR Eurasia Rating on December 6, 2013, denoting BBB-(Trk) Stable outlook in the Long Term National Scale) plans to issue bonds in 3 different tranches with different maturities and expected returns without any establishment of a SPV.

The asset which is subject to the construction project in Ataşehir district is the land to be repurchased within an equity of redemption agreement via the proceeds of the planned issue. The project, sales revenues of which provide collateral for the issue, includes such marketable detached sections as retail spaces, offices, recreational center and sports & cinema center of 32,715 m² area with a total construction area of 64,544 m² on a total 37,830.37 m² of land. The construction of the units shall be carried out by **Varyap**.

The project is estimated to be completed in April, 2015 and the bonds to be issued shall be offered to qualified investors.

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Strengths

- Asset and Project constituting the baseline for the issuance possessing market value higher than the issue amount and trading capability, respectively
- Originator possessing successful track record, necessary expertise, sufficient know-how and management skills to fulfill the project
- The structure established to function to the favor of the investors, possessing the financial strength necessary to finance the project and tranching in line with cash flow requirements
- Establishment of land mortgages on behalf of bond investors
- Predetermined parts of sales revenues and 10% of the issue amount to accumulate in the project reserve account (pledged in favor of the brokerage house) to be withheld as additional collateral
- Eventualities of real estate purchase by bond investors at redemption dates to mitigate inability to repay principal and coupon amounts to result from variances from the planned sales calendar
- Securing cash flows through assignment of rights on the issuer account to the servicer

Constraints

- Unresolved issue of encumbrance on the project – the land having been vested in the entitled party - though the originator plans to exercise its equity of redemption with proceeds from the issue
- Absence of guarantor mechanisms
- Planned realization of sales revenues including the risk of delay independent of the originator’s past performance
- Issue including market rate of return being exposed to volatility of relevant market indicators within its maturities
- Different interpretations of law throughout the legislative process
- The securities to be issued lacking ubiquity in Turkish financial markets

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