Corporate Governance and
Credit Rating Services Inc.

4 November 2016

KOÇ FİNANSMAN A.Ş.

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 being a part of Koç Group of Companies 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 mainly provides financing for the purchases of motor vehicles, along with durable consumer goods, services and housing. In addition, Koç Finansman A.Ş. serves as an insurance broker for the loans which it extends.

Under the provisions of the Law dated December 13, 2012 the company also has the opportunity to provide financing for the purchase of all kinds of goods and services and to undertake inventory financing, dealer financing and etc.

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 and analysis of automotive, residential and consumer electronics sectors to which the company provides financing, KOÇ FİNANSMAN A.Ş.'s previous (National) short term rating of (TR) A1 and the long term rating of (TR) A+ is revised as (National) short term rating of (TR) A1+ and the long term rating of (TR) AA-.

Strengths and Risks

Strengths

- Accumulated experience in the business,
- In addition to the automotive and housing sectors; being active in various fields such as consumer durables, education, consumer electronics, dealer and stock financing, and adopting a portfolio diversification strategy,
- Relatively higher equity level among financing companies,
- Effective financial protection against cash flow risks,
- The operational and financial strength of the Koç Group of Companies to which it is affiliated.

Risks

- Slowdown in demand to imported products due to exchange rate and price increases.
- The performance of the company is largely parallel to the performance of the highly volatile automotive sector.

Outlook

The company effectively utilizes 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, etc. in the derivatives market. It is observed that financial structure of the company has the ability to maintain its stable stance despite the possible exchange and interest rate increases/decreases which could affect the sector. For this reason, the company's short and long-term outlook is defined as 'stable' by us.

Economic Outlook

The global economy is long struggling to overcome the weak spiral of growth. Investments, productivity, wages and the slow growth trend in world trade indicate that a general lack of demand continues and the Brexit shock of June has been another factor affecting the outlook negatively and further increasing uncertainty. Global growth rates that have been declining continuously since 2010 have remained at 3.1% in 2015, with 2016 expectations (OECD 3.0% and IMF 3.1%) not reaching the previous year. The expectation for the year 2017, however, predicts a moderate increase (OECD 3.2%, IMF 3.4%).

While the Turkish economy started to make a rapid start with a 4.8% growth in the first quarter of 2016, there has been a significant slowdown since the second quarter. This may be attributed to the fact that the foreign exchange outflows from the last quarter of 2015 on all emerging markets in relation to the US Central Bank's interest rate hike expectations and regional instability and increasing domestic political risks. In particular, the sharp decline in business lines such as energy, tourism, foreign contracting, fresh fruit and vegetable exports caused by the political crisis with Russia has been reflected in the general economic indicators from the second quarter onwards.

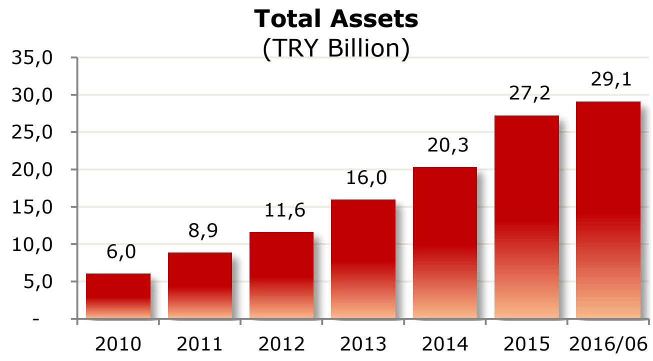
An important break point in the Turkish economy was the July 15 coup attempt and the subsequent uncertainties. Finally, in addition to all these risks, Moodys' lowering of Turkey's credit rating also affected expectations negatively. In spite of the shocks that have been experienced, with the exception of the rising trend in foreign exchange rates, reaction of the markets seems to be limited for now in terms of interest, inflation and currency movements. However, it is necessary to closely monitor the mid-term stance of the limited reaction witnessed in the short-term and effect on the real sector of especially the uptrend in currencies which has been continuing for the last five months and approaching to 10%. Other indicators supporting the expectation of slowing down in the second half of 2016 are; the slow increase of 3.5% in industrial production compared to the same period of last year, the drop in the Manufacturing Industry Purchasing Index to below 50 and the weak growth of real loans. The favorable annual average of 7.89% October consumer price inflation not showing any significant increase despite the exchange rate increases should also be interpreted as a sign of poor overall demand. Turkey's 2017 growth forecasts are set behind 2016 after being revised down several times during the year (OECD 3.7%, IMF 3%).

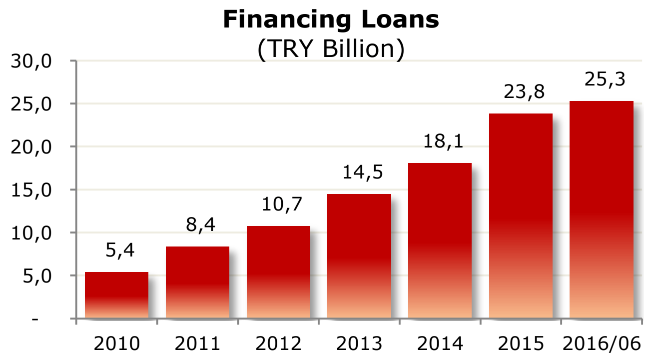
Financing Sector

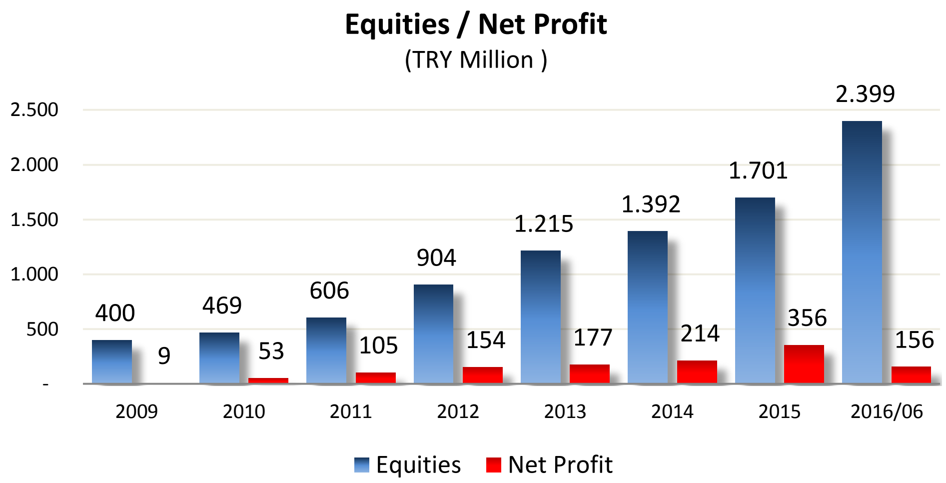
Turkish nonbank financial sectors contributing to diversification, development and deepening of financial services are in the development stage, yet their shares in the financial system have been increasing each day. In particular, the innovations introduced by the "Financial Leasing, Factoring and Financing Companies Law" which entered into force on December 13, 2012 are important for the future of these sectors. The Financial Leasing, Factoring and Financing Companies Association was established in July 25, 2013. It is expected to contribute to the development of the institutional structure of these sectors and to increase standardization and transparency.

According to the data of first 6 months of 2016, we see that the growth momentum of the sector continues compared to the same period last year. The TL 19.1 billion of *Trading Size* of the sector which recorded a 39.7% growth in 2015 have increased by 18% in the first half of 2016, reaching to over TL 10 billion. The growth expectation for 2016 is 25%. The *Asset Size* increase of 34.2% in 2015 have reached to TL 29,094,000,000 in the first half of 2016 with an increase of 25.7%. Respectively, *Receivables Size* increased by 24.4% to TL 25,303,000,000. The main factor underlying this growth is the entry of Evkur and Turkcell Finansman in the sector.

The growth recorded in the asset size of the finance sector, standing credit volume, equity and net profit over the years has been shown in the following tables.







The amendments to the Regulation on Accounting Practices and Financial Statements of Financial Leasing, Factoring and Financing Companies published in the Official Gazette No. 29398 dated June 26, 2015 by the BRSA have reduced the ratios related to the general provision liability of the finance companies to the same level as the banks. According to the new practice, with the exception of housing loans, general reserve requirement for consumer loans is decreased from 4% to 1% and loans with principal or interest or both with a collection delay of more than 30 days but less than 90 days is decreased to 2% from 8%. This change in the legislation has also had positive effects on the performance increase in 2016.

As of September 2016, the Turkish automotive sector narrowed by -2.3% in the number of Cars compared to the same period of the previous year, while decreasing by -9.22% in the number of Light Commercial Vehicles. The -5.8% total quantity contraction of the sector is largely due to the effects of the decreases since July. From September onwards, it is observed that 2016 data showed a positive growth over the same month of last year. Accordingly, Y2Y September total market volume growth was 3.7%, while Automobile and Light Commercial Vehicles grew by 5.57%.

On the other hand, as of September 2016, total credit stock of the automotive sector reached to TL 45.9 billion while the Financing companies' share rose to 51%. This rate has increased from 40.75% at the end of 2013 to 46.87% in 2014 and to 50% at the end of 2015.

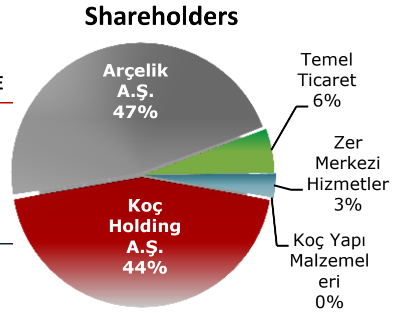
Company Overview

Koç Finansman A.Ş. is established in Istanbul on January 3, 1995 under the name of Koç Tüketici Finansmanı A.Ş. It is an affiliate of Koç Group of Companies and it is the first finance company in Turkey who received the "Financing Company Operating Permit". Koç Group is Turkey's largest group of companies with its turnover, exports, its share in the Borsa Istanbul (BIST), with its number of employees and also 419th largest company of the world on 2016 Fortune Global 500 list.

The company is subject to provisions and related legislation of the Financial Leasing, Factoring and Financing Companies Act No. 6361 which came into force on December 13, 2012. It supplies credit facilities for all goods and services, especially vehicle loans, offering credit to different brands by gradually expanding the existing dealer network.

The company is named Koç Finansman A.Ş. following the change of title stated on the Trade Registry Gazette No 8284 dated 22 March 2013. The company was established with a capital of TL 1 million and its current paid-in capital is TL 100 million. As of June 30, 2016 the company's capital structure is as follows:

COMPANY	SHARE VALUE	NUMBER OF SHARES	SHARE PERCENTAGE
1. Koç Holding A.Ş.	44,500,000	4,450,000,000	44.5%
2. Arçelik A.Ş.	47,000,000	4,700,000,000	47.0%
3. Temel Ticaret ve Yatırım A.Ş.	5,500,000	550,000,000	5.5%
4. Zer Merkezi Hizmetler ve Ticaret A.Ş.	2,999,900	299,990,000	3.0%
5. Koç Yapı Malzemeleri Ticaret A.Ş.	100	10,000	0.0%
TOTAL AUTHORIZED CAPITAL STOCK (ONE TL)	**100,000,000**	**10,000,000,000**	**100%**



The number of employees of the company over the years is as follows:

	2011	2012	2013	2014	2015	2016/6
Number of Employees	131	128	127	124	123	116

The rate of vehicle loans to total standing loans of the company was 96% as of the end of 2015 and 97% as of end June 2016. Within the scope of its portfolio diversification strategy, the company operates in areas such as consumer durables, education, dealer and stock financing, consumer electronics as well as automotive and housing sectors.

Sectoral Divison of Loans (TL Million)	2014	2015	2016/6
Vehicle	2,252	2,706	2,994
Housing	35	41	36
Other	13	72	58
Total	**2,300**	**2,819**	**3,088**

Balance Sheet and Income Statement

Koç Finansman A.Ş. Comparative Balance Sheets:

ASSET ITEMS (TL THOUSAND)	30 June 2016	31 Dec. 2015	31 Dec. 2014
1. CASH ASSETS	85,962	57,251	36,268
2. FAIR VALUE IN P/L (Net)	-	406	-
3. BANKS	24,512	74,833	7,744
4. RECEIVABLES FROM REVERSE REPO TRANSACTIONS	-	-	-
5. MARKETABLE FINANCIAL ASSETS (Net)	-	-	-
6. FACTORING RECEIVABLES	-	-	-
7. FINANCIAL LOANS	3,087,896	2,818,880	2,300,794
8. LEASING TRANSACTIONS	-	-	-
9. OTHER RECEIVABLES	7,176	12,299	7,294
10. NON-PERFORMING LOANS	36,180	45,692	36,858
11. DERIVATIVE FINANCIAL ASSETS HELD FOR RISK	10,372	36,050	7,474
12. INVESTMENTS HELD-TO-MATURITY (Net)	-	-	-
13. SUBSIDIARIES (Net)	-	-	-
14. AFFILIATES (Net)	13	13	13
15. PARTNERSHIPS (Net)	-	-	-
16. TANGIBLE ASSETS (Net)	422	475	615
17. INTANGIBLE ASSETS (Net)	304	414	291
18. PREPAID EXPENSES	2,534	939	1,430
19. CURRENT PERIOD TAX ASSETS	-	-	-
20. DEFERRED TAX ASSETS	8,066	-	993
21. OTHER ASSETS	203	198	66
22. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)	786	141	161
TOTAL ASSETS	**3,264,426**	**3,047,591**	**2,400,001**

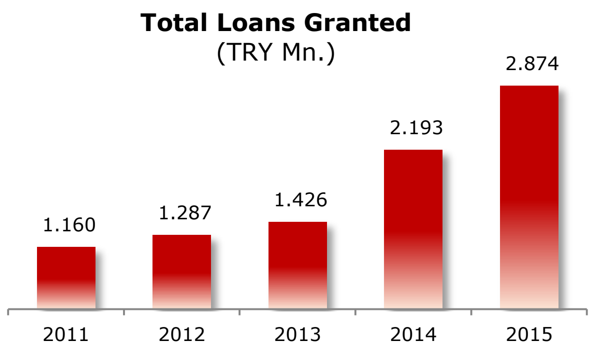
LIABILITIES (TL THOUSAND)	30 June 2016	31 Dec. 2015	31 Dec. 2014
1. DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING	-	-	-
2. LOANS RECEIVED	2,391,485	2,287,611	1,571,574
3. FACTORING PAYABLES	-	-	-
4. LEASE OBLIGATIONS	-	-	-
5. ISSUED SECURITIES (Net)	520,839	434,944	571,408
6. OTHER LIABILITIES	19,626	20,789	10,134
7. OTHER LOAN CAPITAL	8,426	3,562	2,956
8. DERIVATIVE FINANCIAL LIABILITIES HELD FOR RISK	24,479	344	-
9. PAYABLE TAXES AND LIABILITIES	6,382	7,807	6,480
10. PROVISIONS FOR LIABILITIES AND EXPENSES	42,051	36,516	48,261
11. DEFERRED INCOME	63,387	57,298	30,282
12. CURRENT PERIOD TAX LIABILITIES	8,321	3,589	1,062
13. DEFERRED TAX LIABILITIES	-	4,058	-
14. SUBORDINATED LOANS	-	-	-
15. NON-CURRENT LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS	-	-	-
16. EQUITY	179,430	191,073	157,844
TOTAL LIABILITIES	**3,264,426**	**3,047,591**	**2,400,001**

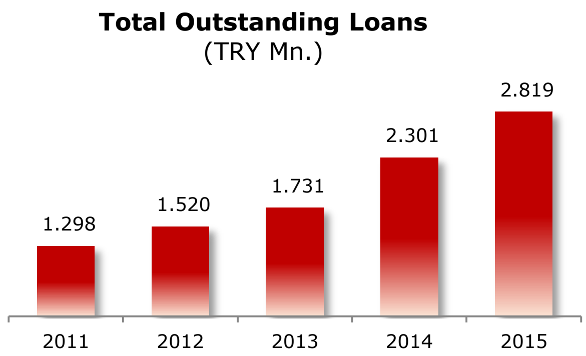
Koç Finansman A.Ş.'s Comparative Statements of Income:

INCOME STATEMENT (TL THOUSAND)	30 June 2016	31 Dec. 2015	31 Dec. 2014
1. OPERATING INCOME	228,753	375,337	283,534
2. FINANCIAL EXPENSES	-159,512	-272,326	-190,184
3. GROSS P/L	69,241	103,011	93,350
4. OPERATING EXPENSES	-27,710	-30,996	-62,632
5. GROSS OPERATING P/L	41,531	72,015	30,718
6. OTHER OPERATING INCOME	11,274	35,988	15,026
7. SPECIAL PROVISIONS FOR DOUBTFUL RECEIVABLES	-16,202	-19,398	-9,145
8. OTHER OPERATING EXPENSES	-9,560	-27,899	-11,577
9. NET OPERATING P/L	27,043	60,706	25,022
10. INCOME AMOUNT IN EXCESS RECORDED AFTER MERGER	-	-	-
11. NET MONETARY GAIN/LOSS	-	-	-
12. CONTINUING OPERATIONS BEFORE TAX P/L	27,043	60,706	25,022
13. TAX PROVISION FOR CONTINUING OPERATIONS	-6,057	-9,785	-10,019
14. CONTINUING OPERATIONS NET P/L	20,986	50,921	15,003
15. INCOME FROM DISCONTINUED OPERATIONS	-	-	-
16. LOSS FROM DISCONTINUED OPERATIONS	-	-	-
17. DISCONTINUED OPERATIONS BEFORE TAX P/L	-	-	-
18. TAX PROVISION FOR DISCONTINUED OPERATIONS	-	-	-
19. DISCONTINUED OPERATIONS NET P/L	-	-	-
NET PROFIT/LOSS	**20,986**	**50,921**	**15,003**

The company's total assets at the end of 2015 showed an increase of 27% compared to the previous year. Koç Finansman A.Ş. is one of the top-ranked companies in vehicle financing in terms of asset size with total assets of TL 3,047,591,000 as of December 31, 2015. With the growing trend, the asset size reached to TL 3,264,426,000 as of June 30, 2016. 95% of the company's total assets consist of financial loans. The increase in the 2015 profit mainly reflects the effect of the decrease in provision expenses as a result of the decrease in general provision rates in line with the legislative amendment.

Development as the years of the company's established financial loans and standing loans are as follows:





Standing loan portfolio of the company has reached to TL 3,087,896,000 as of June 30, 2016.

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

Financial Loans	30 June 2016	31 Dec. 2015
TL Denominated Loans	2,917,445	2,706,074
Foreign Currency Indexed Loans	138,311	88,277
Total	**3,055,776**	**2,794,351**
Accrued Interest on TL Denominated Loans	31,782	24,319
Accrued Interest on Foreign Currency Indexed Loans	338	210
Total Financial Loans	**3,087,896**	**2,818,880**

The company gets collateral security depending on the type of the loan, such as mortgage, letter of guarantee, personal surety, checks and promissory notes. As of June 30, 2016, including non-performing loans, the company had total vehicle pledges amounting to TL 3,179,029,000 for its vehicle loans. As of this date, the total guarantee amount for all loans is TL 6,031,858,000.

The company funds its credit portfolio by loans received from domestic and foreign banks and by securities issued in capital markets. The Company has obtained USD 100 million syndicated loan from abroad in 2005 and USD 100 million club loan in 2006 and 2007. No standing loans were provided from international markets as of June 30, 2016. However, an agreement for a foreign currency loan from international sources was signed on August 19, 2016, and the use of the loan was carried out in tranches on the remaining days of August. As of the date of this report 21 different banks in Turkey and abroad provided standing loans to the company and all of them are unsecured.

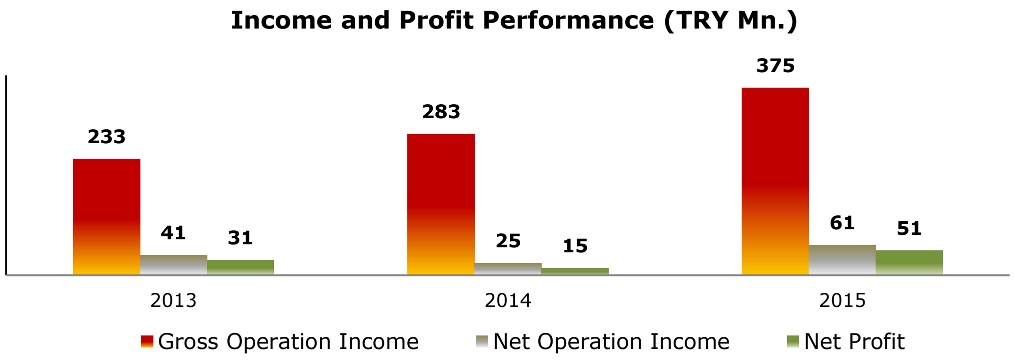
The maturity structure of the loans is as follows (TL thousand):

Bank Loans	30 June 2016	31 Dec. 2015
Short Term Bank Borrowings:		
Short Term Bank Borrowings	123,868	164,501
Short Term Portion of Long Term Borrowingss	1,140,592	1,185,299
Accrued Interest Payable	171,358	148,383
Total Short Term Bank Borrowings	**1,435,818**	**1,498,183**
Long Term Bank Borrowings	**955,667**	**789,428**
Total Bank Loans	**2,391,485**	**2,287,611**

In addition to the loans received from domestic and non-resident banks, the company issues bonds in capital markets to meet its funding needs. Total principle amount of bonds issued and their accrued interest as of June 30, 2016 was TL 520,839,000. This figure was TL 434,944,000 as of December 31, 2015.

The Company hedges the exchange rate and interest rate risks due to foreign currency denominated borrowings by carrying out swaps and similar derivative financial transactions.

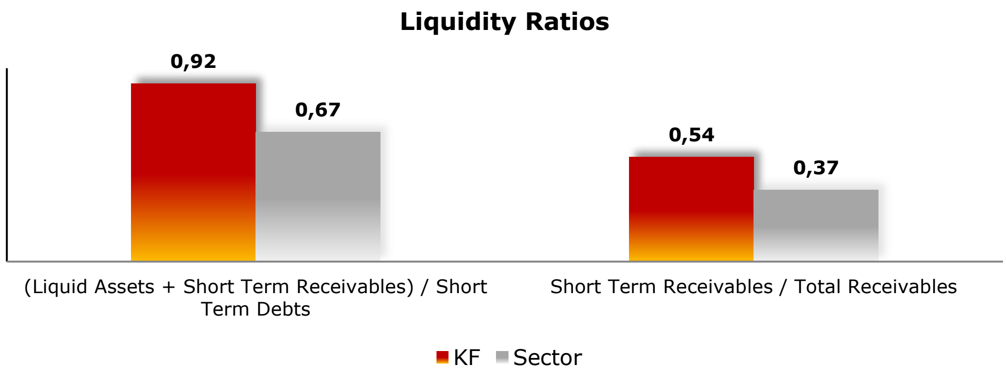
Company’s paid-in capital is TL 100,000,000 and as of December 31, 2015 its shareholders’ equity was TL 191,073,000 with a 21% increase compared to the previous year.



Liquidity:

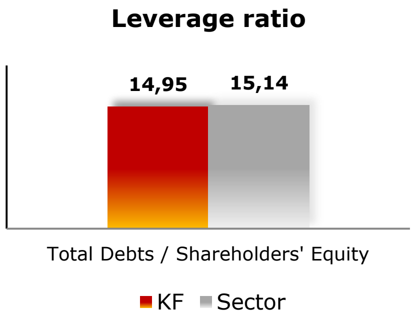
In terms of liquidity ratios, the company is performing above the total balance sheet of the financing sector in general. The company has been managing its liquidity risks by analysing the ability of the receivables to meet the debts on their due dates on a daily basis and overseeing its cumulative liquidty ratios on a monthly basis.

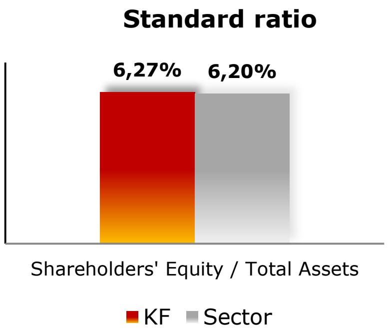
Liquidity Ratios	2014	2015
(Liquid Assets + ST Loans) / ST Financial Debt	1.07	0.92
ST Receivables / Total Receivables	0.50	0.54



Capital Adequacy and Leverage Ratios:

Leverage utilization and standard ratio of the company are close to the sector average. The company's leverage ratio and standard ratio did not change significantly compared to the previous year (14.2 and 6.58% respectively).

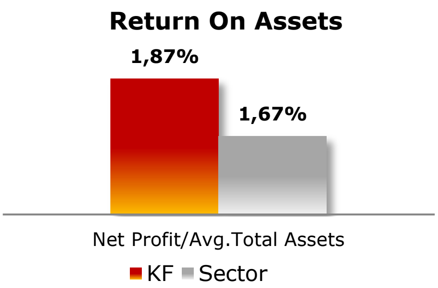


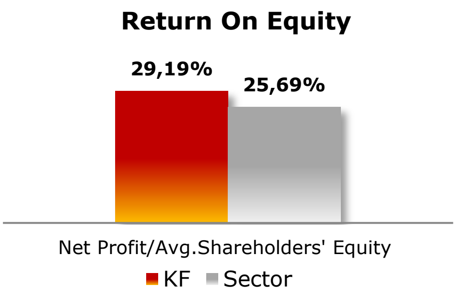


Profitability:

Compared to the previous period, the company has increased its profit for 2015 to TL 51 million from TL 15 million. The increase in profitability has been the predominant effect of the decline in provisioning costs due to the change in legislation. In this framework, the rates of RoA and RoE also increased compared to the last year. The company's RoA and RoE values are above the sector averages.

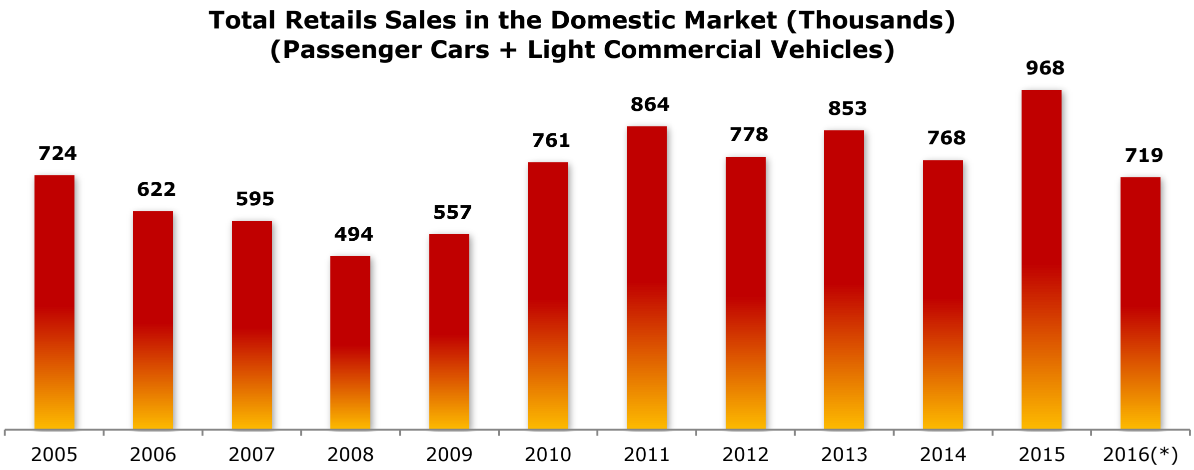
Profitability Ratios	2014	2015
Return on Assets (Period Income / Average Assets)	0.7%	1.9%
Return on Equity (Period Income / Average Equity)	9.1%	29.2%





Volatility:

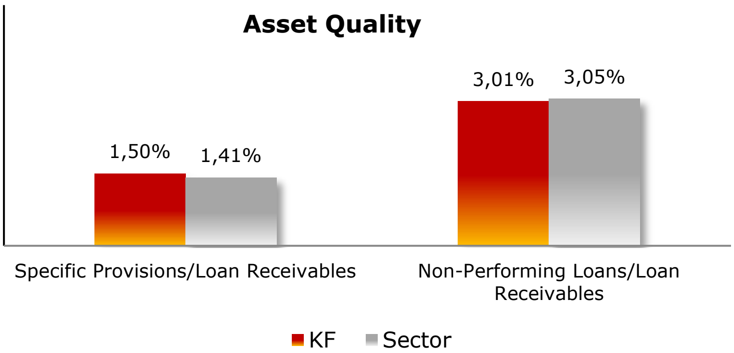
The company's business volume shows high volatility. The high volatility of the auto sales, both domestic and abroad, seems to be the main factor. The trend of the rapid increase in recent years could be followed by a decrease at a similar pace in line with the global economic outlook and changes in the demand for the products of the automotive sector. According to the data published by The Association of Automotive Distributors, in comparison to EU (28) and EFTA countries, total sales in Turkish automotive market grew by 7.7% in the first three quarters of 2016 compared to the same period of 2015 and reached to 11,607,266 units. Total sales realized in the first three quarters of 2015 were 10,766,740. In the January-September 2016 period, Turkey occupied the 6th place in the European automotive sales rankings and 4th on the light commercial vehicles category. The figures for total retail market in Turkey over the years are as follows.



Asset Quality:

In general, the asset quality of the company is close to the sector average and has increased compared to the past year. However, the collection rate of the non-performing loans is high compared to the sector.

Asset Quality	2014	2015
Specific Provisions / Loan Receivables	1.0%	1.5%
Non-performing Loans / Loan Receivables	2.5%	3.0%



Corporate Governance

Since Koç Finansman A.Ş. shares have not been offered to the public the company is not subject to the provisions of the CMB's Communiqué on the Establishment and Implementation of Corporate Governance Principles, but still it has provided substantial compliance with the CMB's Corporate Governance Principles and has implemented most of the necessary policies and measures. A Corporate Governance Committee is established within the Board of Directors. Corporate Governance Principles are identified and approved by the Board. The rights of shareholders and stakeholders are protected in a fair manner. The company's shares are not offered to the public but since it has carried out offering of bonds to qualified investors it is subject to the obligations of the CMB and BIST and it publishes financial reports and public disclosures on Public Disclosure Platform (PDP) on regular basis. Therefore, the company's public disclosure and transparency is at superior levels and the structure and operation of the board of directors is based on solid foundations.

Methodology

SAHA's credit rating methodology is composed of quantitative and qualitative sections to affect the final note 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 tool 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 trend, 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 worthy" 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.

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