Corporate Governance and Credit Rating Services Inc.

6 November 2017

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.

Ünalan Mah. Ayazma Cad.
Koç Çamlıca İş Merkezi
A Blok 34700
Üsküdar, Istanbul

Tel: (0216) 556 35 00
Fax:(0216) 556 36 60
http://www.kocfinans.com.tr

Rating Summary

The principal activity of Koç Finansman A.Ş. is to provide loans for the purchase of all kinds of goods and services. Established in Turkey and being the first company to acquire the "financing company" license, it is a part of Koç Group of Companies. The Company is subject to the supervision and regulation of the Banking Regulation and Supervision Agency (BRSA) and operates under the provisions of the Law no. 6361 (the Law) on Financial Leasing, Factoring and Financing Companies. Koç Finansman A.Ş. is also a member of the Financial Leasing, Factoring and Financing Companies' Association.

The Company mainly provides financing for motor vehicle purchases, along with financing for 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, since December 13 2012, the Company has the allowance to provide financing for the purchase of all kinds of goods and services including inventory financing, second-hand vehicle financing, dealer 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 and analysis of automotive, residential and consumer electronics sectors to which the Company provides financing, Koç Finansman A.Ş.'s previous (National) short term rating of **(TR) A1+** and the long term rating of **(TR) AA-** has been confirmed.

Strengths and Risks

Strengths

- Past experience in the industry, and being a member of the Koç Group of Companies,
- Sustained high growth rate,
- Portfolio diversification strategy,
- Effective financial hedging practices against cash flow risks,

Risks

- Probable slowdown in the demand for imported products due to adverse exchange rates and price increases,
- The parallel performance of the Company to the performance of the volatile automotive industry.

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 via swaps and forward contracts in the derivatives market. The Company has proven to be able to maintain stability in its financial balances despite risks of volatility in exchange rates and interest rates which could adversely affect related industries. For this reason, the Company's short and long-term outlook has been evaluated as 'Stable'.

Economic Outlook

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

The International Monetary Fund (IMF) has raised its global growth forecast for 2017 to 3.6% and the expectation for 2018 to 3.7% in its July 2017 Global Economic Outlook Update Report. This change, which accounts for a 0.1% increase in the global growth expectation for both years compared to the April report, is due to the performance beyond expectations in emerging Europe, developing Asia, Japan and Russia, despite lower US and UK growth expectations. It is emphasized in the report that the global recovery process is not yet complete, the growth is still at insufficient levels in many developed economies and inflation is still below targets. Due to uncertainties regarding the implementation of fiscal stimulus measures and the intended corporate tax reductions in face of legal budget limits, US growth forecasts were revised downwards by 0.1% and 0.2% for both 2017 and 2018 respectively and forecasted as 2.2% and 2.3%. On the other hand, the European Union's 2017 growth esimate was increased by 0.4% to 2.1% while the 2018 growth was estimated as 1.9%, with an increase of 0.3%. Similarly, Japan and China's growth estimates have also been revised upwards to 1.5% and 6.8% respectively.

According to the statement released by the TSI (Turkish Statistical Institute), 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 of 2016. Overall annual growth rate for 2016 was 2.9%. As far as expenditures, final household consumption and investments performed poorly compared to the previous year. Imports increased while exports shrank and the growth of 2016 was mainly supported by the increasing public expenditures. The World Bank's June 2017 European and Central Asia Regional Report pointed out that Turkey swiftly recovered from shocks experienced in 2016 much faster than expected and growth forecasts for 2017, 2018 and 2019 were revised upwards to 3.5%, 3.9% and 4.1% respectively.

On the other hand, while the real growth rate was recorded as 5% in the first quarter of 2017 compared to the same period of the previous year, the second quarter growth reached 5.1% compared to the same period of the previous year exceeding expectations. Contrary to the past year, factors that supported growth this year are household consumption, exports and investments while public expenditures decreased. As a result, Turkey's growth forecast for 2017 by various international institutions and banks were revised upwards to around 5% in parallel with this performance. Similarly, the 2017 growth forecast was revised to 5.1% in the October report of the IMF. Turkey's 2.6 basis point change in current year's growth forecast was recorded as the most notable positive revision in the report and in turn caused the growth estimates for the "Growing and Developing Europe" category to be revised upwards from 3.5% to 4.5%.

The constitutional amendment, which took place after the referendum in April 2017, brings forth radical and massive legal revisions to the current administrative agenda. Therefore, despite the partial elimination of a major domestic political uncertainty in face of the result of the referendum foreseeing a transition to a presidential system, the upcoming presidential election set for 2019, still poses a factor of uncertainty for another while. In addition to the above, the possible effects of probable regional developments in neighboring Syria and Iraq on Turkey, along with the increased tension between the Gulf states against Qatar and Iran on the one hand, and the chilling relations with the US and the EU on the other point to increasing risks for Turkey.

Inflation is increasingly casting a shadow in 2017. The YoY CPI increase which fell to single-digits in July rose to double-digits again in August reaching 10.68%, and continued its upward trend climbing to 11.20% in September. The weighted average annual increase of CPI rose to 9.98% as of September, reaching the boundary of two-digit figures. The annual increase in the PPI as of September was 16.28% and the weighted average annual PPI increased to 13.26%.

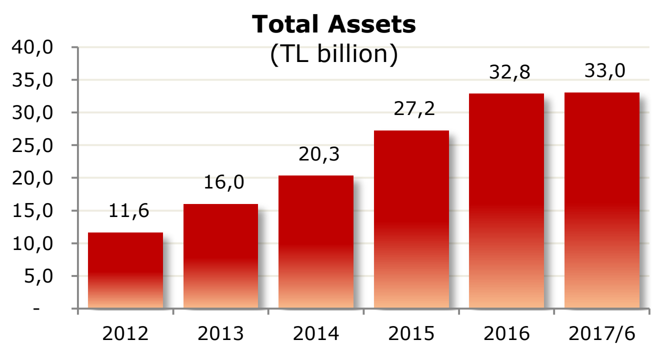
The expanding credit volume as a result of the Credit Guarantee Fund’s limit increases is considered to have a positive impact on growth in the first half of 2017. On the other hand, the fact that the loan/deposit ratio is still as high as 120% indicates an ongoing risk factor. The positive impact of deposits on the loan/deposit ratio, which is expected to increase due to growth, will continue to be monitored in the upcoming period. Similarly, the inflation-pushed increase on weighted average nominal commercial loan interest rates to 16% as of September from 12% at the beginning of the year is another risk factor to be closely monitored.

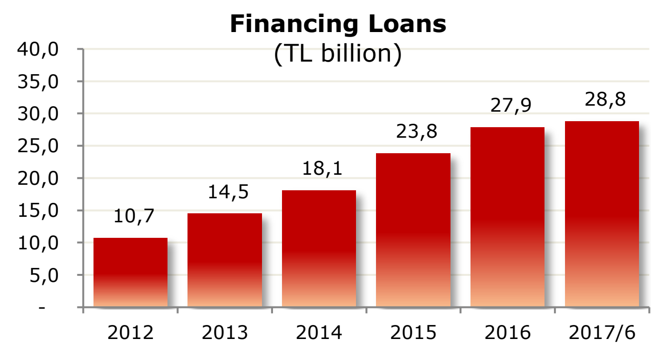
Financing Sector

The Turkish non-bank financial sector contributing to the diversification, development and deepening of financial services is still in its development stage. Yet its share in the financial system has been increasing by the day. In particular, the innovations introduced by the "Financial Leasing, Factoring and Financing Companies Law" which entered into effect on December 13, 2012 proved to be significant for the future of these sectors. The Financial Leasing, Factoring and Financing Companies Association was established in July 25, 2013 with the purpose to contribute to the development of the institutional structure and to increase standardization and transparency in the industry.

The nonbank financial sector continued its growth trend as in the previous periods. The consolidated data comparing end 2016 to the same period of 2015 is as follows; total assets increased by 21% reaching to TL 114.388 billions, trading volume grew by 5% to TL 163.567 billions, receivables increased by 20% reaching TL 102.904 billions, the equity size grew by 17.9% to TL 15.590 billions and the net profit jumped by 25.4% to TL 1.945 billions.

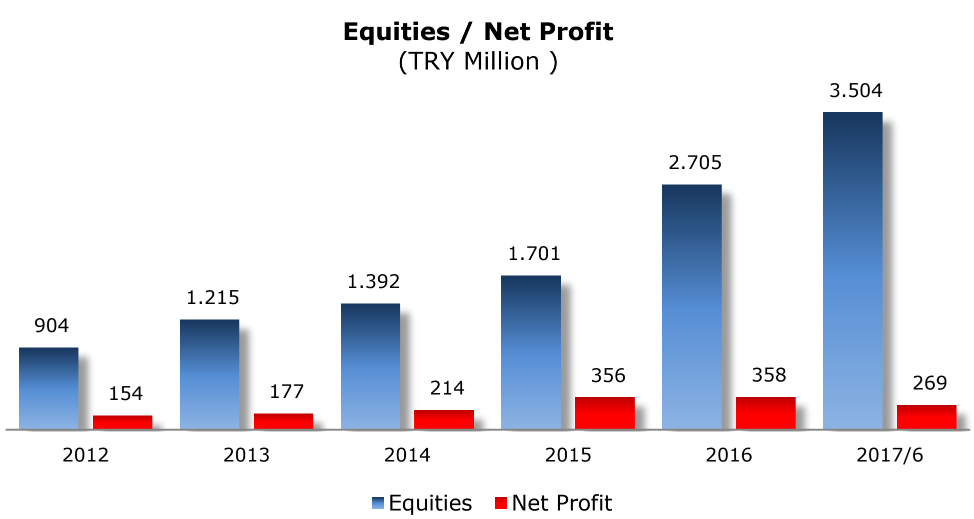
Comparing the 2016 performance of the finance companies with the previous year, it can be seen that the growth momentum of the sector is still persistent. The sector's new loan transaction volume, which increased by 39.7% in 2015 and reached TL 19.1 billions, increased by 16.2% in 2016 and exceeded TL 22 billions.





The total asset size of the financing sector showed a growth of 21% as of the end of 2016 compared to the previous year, reaching TL 32.8 billion. Financing loans climbed to TL 27.9 billion in 2016 with a growth rate of 17% and reached TL 28.8 billion as of June 2017.

As of the end of 2016, the sector's total equity increased by 60% to TL 2.7 billion and the net profit grew by 1%, reaching to TL 358 million. The recorded TL 3.5 billion of total equity in the first six months of 2017 will most likely keep up the positive performance until the end of the year.



The newly issued credit performance of the sector is shown in the table below. With the performance realised in the first six months of 2017, the ever growing sector has already surpassed 50% of the 2016 volume and it is predicted that vehicle demand will further increase due to the impact of the end-of-the-year motor vehicle tax draft. As a result, it is estimated that the 2017 results will be higher than the previous year end levels.

Year	Loans Granted (TL '000')				
	Auto		Mortgage	Other	Total
	Passenger	Commercial			
2012	3,862,694	2,385,583	289,594	113,443	6,651,313
2013	5,824,941	2,950,120	365,264	114,523	9,254,847
2014	4,884,934	8,389,490	356,265	37,595	13,748,444
2015	7,388,195	11,344,600	222,189	145,494	19,100,478
2016	9,315,143	9,870,518	31,715	2,968,379	22,185,754
2017/6	3,597,195	5,376,612	3,306	2,905,612	11,882,725

Source: Association of Financial Institutions

Total volume of financing companies' automotive loans has surpassed the respective bank financing volume for the first time as of November 2015, and provided 51.6% of total vehicle financing volume as of June 2017.

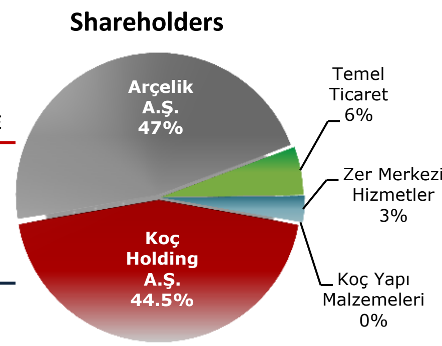
Company Overview

Koç Finansman A.Ş. was established in Istanbul on January 3rd, 1995 under the name of Koç Tüketici Finansmanı A.Ş. It is an affiliate of the Koç Group of Companies and it is the first finance company in Turkey who received the "Financing Company Operating Licence". Koç Group is Turkey's largest group of companies in terms of its turnover, exports, its share in the Borsa Istanbul (BIST), with its number of employees and also 463rd largest company of the world on 2017 Fortune Global 500 list.

The Company operates in accordance to the Financial Leasing, Factoring and Financing Companies Act No. 6361 in effect as of December 13th, 2012. It supplies credit facilities for all goods and services, especially vehicle loans to variety of brands, steadily expanding its existing dealer network.

The Company title was changed to Koç Finansman A.Ş. on 22nd March 2013 as registered to the Trade Registry Gazette No 8284. Koç Finansman A.Ş. was established with a capital of TL 1 million and its current paid-in capital is TL 100 million. As of June 30th, 2017 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	0.0%
TOTAL AUTHORIZED CAPITAL STOCK (ONE TL)	**100,000,000**	**10,000,000,000**	**100%**



The total number of employees of the Company over the years is as follows:

	2012	2013	2014	2015	2016
Number of Employees	128	127	124	123	121

The Company's current loans by sector is summarized in the following table. By the end of 2016, the share of vehicle loans was 98%. This ratio continues unchanged as of the end of June 2017. Koç Finansman A.Ş. has increased its credit volume by 20% to TL 3.4 billion compared to the previous year as a result of its portfolio diversification strategy, extending its operation to second hand and fleet loans, dealer inventory financing, etc. for the automotive sector, as well as motorcycle, consumer durables, consumer electronics, education, housing and home improvement loans.

Sectoral Division of Loans (TL million)	2014	2015	2016
Vehicle	2.252	2.706	3.294
Housing	13	72	53
Other	35	41	30
Total	**2.300**	**2.819**	**3.377**

Balance Sheet and Income Statement

Koç Finansman A.Ş Comparative Balance Sheets:

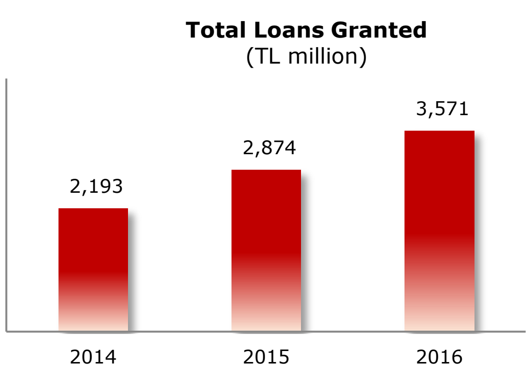
ASSET ITEMS (TL THOUSAND)	June 30, 2017	Dec. 31, 2016	Dec. 31,2015
1. CASH ASSETS	76.780	75.560	57.251
2. FAIR VALUE IN P/L (Net)	40	-	406
3. BANKS	37.002	139.848	74.833
4. RECEIVABLES FROM REVERSE REPO TRANSACTIONS	-	-	-
5. MARKETABLE FINANCIAL ASSETS (Net)	-	-	-
6. FACTORING RECEIVABLES	-	-	-
7. FINANCIAL LOANS	3.398.854	3.376.855	2.818.880
8. LEASING TRANSACTIONS	-	-	-
9. OTHER RECEIVABLES	6.432	10.066	12.299
10. NON-PERFORMING LOANS	34.619	38.288	45.692
11. DERIVATIVE FINANCIAL ASSETS HELD FOR RISK	142.214	179.822	36.05
12. INVESTMENTS HELD-TO-MATURITY (Net)	-	-	-
13. SUBSIDIARIES (Net)	-	-	-
14. AFFILIATES (Net)	13	13	13
15. PARTNERSHIPS (Net)	-	-	-
16. TANGIBLE ASSETS (Net)	649	753	475
17. INTANGIBLE ASSETS (Net)	1.150	401	414
18. PREPAID EXPENSES	1.999	2.466	939
19. CURRENT PERIOD TAX ASSETS	-	19.529	-
20. DEFERRED TAX ASSETS	-	-	-
21. OTHER ASSETS	288	149	198
22. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)	636	607	141
TOTAL ASSETS	**3.700.676**	**3.844.357**	**3.047.591**

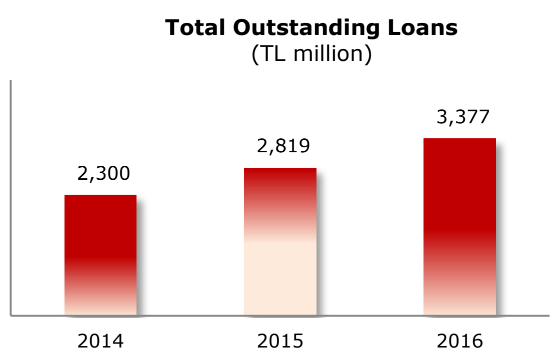
LIABILITIES (TL THOUSAND)	June 30, 2017	Dec. 31, 2016	Dec. 31,2015
1. DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING		-	-
2. LOANS RECEIVED	2.833.636	2.936.587	2.287.611
3. FACTORING PAYABLES	-	-	-
4. LEASE OBLIGATIONS	-	-	-
5. ISSUED SECURITIES (Net)	437.854	487.939	434.944
6. OTHER LIABILITIES	21.606	32.359	20.789
7. OTHER LOAN CAPITAL	12.295	15.243	3.562
8. DERIVATIVE FINANCIAL LIABILITIES HELD FOR RISK	2.661	-	344
9. PAYABLE TAXES AND LIABILITIES	6.945	8.768	7.807
10. PROVISIONS FOR LIABILITIES AND EXPENSES	59.836	52.358	36.516
11. DEFERRED INCOME	60.329	69.761	57.298
12. CURRENT PERIOD TAX LIABILITIES	3.403	-	3.589
13. DEFERRED TAX LIABILITIES	20.823	20.063	4.058
14. SUBORDINATED LOANS	-	-	-
15. NON-CURRENT LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS	-	-	-
16. EQUITY	241.288	221.279	191.073
TOTAL LIABILITIES	**3.700.676**	**3.844.357**	**3.047.591**

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

INCOME STATEMENT (TL THOUSAND)	June 30, 2017	Dec. 31, 2016	Dec. 31,2015
1. OPERATING INCOME	273.262	491.497	375.337
2. FINANCIAL EXPENSES	-196.389	-355.291	-272.326
3. GROSS P/L	76.873	136.206	103.011
4. OPERATING EXPENSES	-29.880	-62.714	-30.996
5. GROSS OPERATING P/L	46.993	73.492	72.015
6. OTHER OPERATING INCOME	28.654	56.674	35.988
7. SPECIAL PROVISIONS FOR DOUBTFUL RECEIVABLES	-6.797	-27.743	-19.398
8. OTHER OPERATING EXPENSES	-22.126	-47.678	-27.899
9. NET OPERATING P/L	46.724	54.745	60.706
10. INCOME AMOUNT IN EXCESS RECORDED AFTER MERGER	-	-	-
11. NET MONETARY GAIN/LOSS	-	-	-
12. CONTINUING OPERATIONS BEFORE TAX P/L	46.724	54.745	60.706
13. TAX PROVISION FOR CONTINUING OPERATIONS	-10.620	-13.712	-9.785
14. CONTINUING OPERATIONS NET P/L	36.104	41.033	50.921
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	**36.104**	**41.033**	**50.921**

The Company's new financial loans and total loan volume figures over the years is as follows:



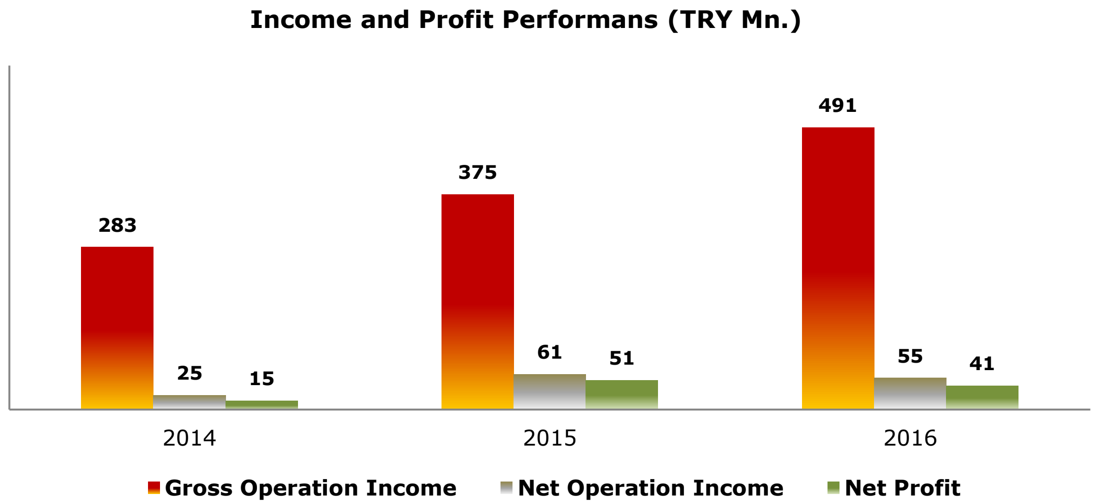


Current loans portfolio of the Company has reached TL 3.4 billions as of June 30th, 2017. The maturity structure of the financial loans is as follows (TL thousand):

Financial Loans	June 30, 2017	Dec. 31, 2016
TL Denominated Loans	3.232.576	3.197.469
Foreign Currency Indexed Loans	113.084	129.498
Total	**3.345.660**	**3.326.967**
Accrued Interest on TL Denominated Loans	33.483	32.311
Accrued Interest on Foreign Currency Indexed Loans	19.711	17.577
Total Financial Loans	**3.398.854**	**3.376.855**

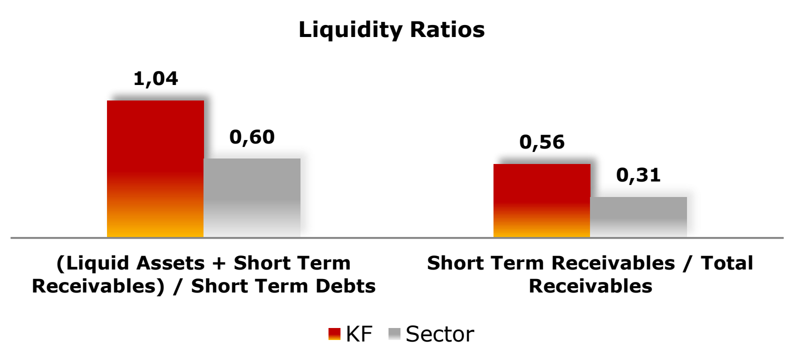
The maturity structure of financial borrowings is as follows (TL thousand):

Bank Loans	June 30, 2017	Dec. 31, 2016
Short Term Bank Borrowings:		
Short Term Bank Borrowings	205.386	83.947
Short Term Portion of Long Term Borrowings	1.537.905	1.357.109
Accrued Interest Payable	166.888	168.364
Total Short Term Bank Borrowings	**1.910.179**	**1.609.420**
Long Term Bank Borrowings	**923.457**	**1.327.167**
Total Bank Loans	**2.833.636**	**2.936.587**



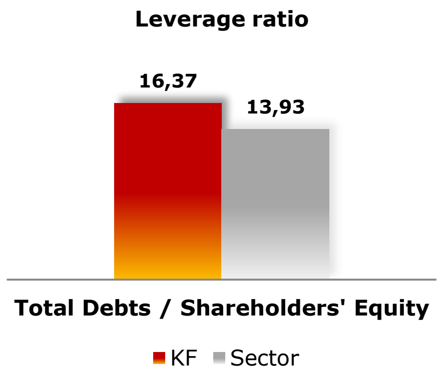
Liquidity:

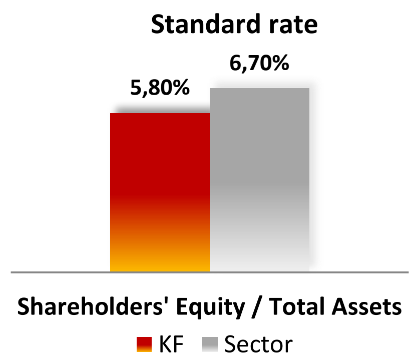
Liquidity Ratios	2015	2016
(Liquid Assets + ST Loans) / ST Financial Debt	0.92	1.04
ST Receivables / Total Receivables	0.54	0.56



Capital Adequacy and Leverage Ratios:

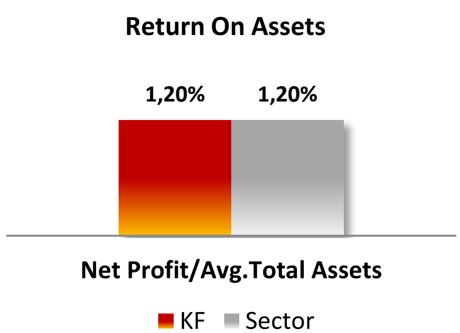
Leverage utilization and standard ratio of the Company are close to the sector average. The Company's leverage ratio and standard ratio did not change significantly compared to the previous year (14.95 and 6.27% respectively).

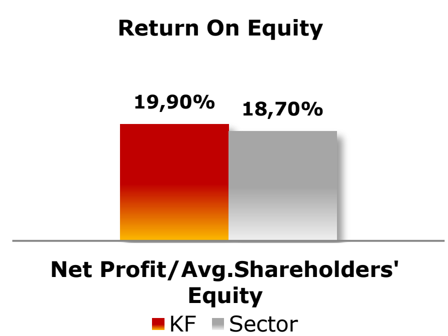




Profitability:

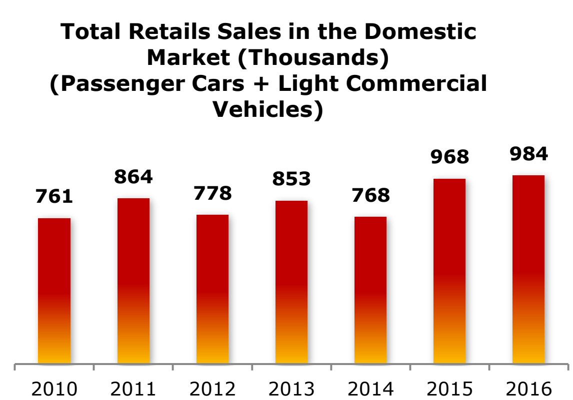
Profitability Ratios	2015	2016
Return on Assets (Net Income / Average Assets)	1.90%	1.20%
Return on Equity (Net Income / Average Equity)	29.20%	19.90%





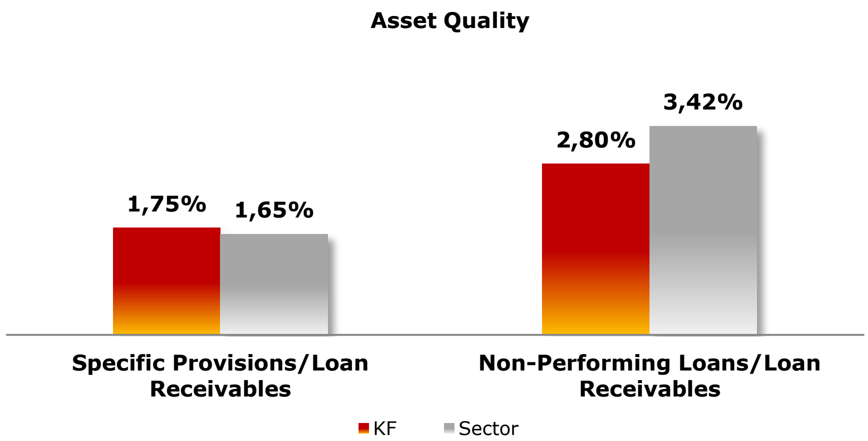
Volatility:

The volatility of the financing sector is primarily driven by the domestic demand volatility of the automotive industry. Rapid increases in recent years would often be followed by decreases at a similar pace in parallel to the global economic outlook and changes in demand of the automotive industry. Looking at the past two years, a flat growth is observed. According to the data published by The Association of Automotive Distributors, the total market for Turkish automobiles and light commercial vehicles increased only by 1.62% to 983,720 units in 2016 compared to the previous year. While automobile sales reached to 756,938 units in 2016 with a 4.32% increase compared to the previous year, light commercial vehicle market decreased by 6.45% to 226,782 units in the same period. The Turkish automotive market shrunk by 0.06% in the first ten months of 2017 compared to total sales volume of the same period of the year 2016, reaching to a total of 719,095 units.



Asset Quality:

Asset Quality	2015	2016
Specific Provisions / Loan Receivables	1.48%	1.75%
Non-performing Loans / Loan Receivables	3.01%	2.80%



Corporate Governance

Since Koç Finansman A.Ş. shares are not public, the Company is not subject to the provisions of the CMB's Communiqué on the Establishment and Implementation of Corporate Governance Principles. Nevertheless, it has accomplished 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. Although the Company's shares are not offered to the public, since it has issued bonds to qualified investors, it is subject to the obligations of the CMB and BIST and it publishes financial reports and public disclosures on the Public Disclosure Platform (PDP) on a 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 contributing to the final grade with specific weights. The quantitative analysis components consist of its 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.

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Contacts:

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, Istanbul
Tel: (0212) 291 97 91, Fax: (0212) 291 97 92 ● info@saharating.com ● www.saharating.com