

Corporate Governance Rating Report

**Revised Report
REIT**

This Report has been prepared by JCR-ER in compliance to the regulations of Capital Market Board of Turkey

		8.81 AAA(Trk)/a (Stable)
		8.78 AAA(Trk)/a (Stable)
Corporate Governance Score & Outlook	Shareholders	9.16 AAA(Trk)/aa (Stable)
	Public Disclosure & Transparency	8.32 AA(Trk)/bbb (Stable)
	Stakeholders	8.79 AAA(Trk)/a (Stable)
	Board of Directors	

İŞ GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.						
Financial Data	3Q2013	2012	2011	2010	2009	2008
Total Assets (000 USD)	716,926	783,043	614,655	712,956	680,211	635,815
Total Assets (000 TRY)	1,460,019	1,391,937	1,161,022	1,096,242	1,011,678	967,584
Equity (000 TRY)	1,131,733	1,069,883	1,034,472	990,021	951,603	913,804
Sales (000 TRY)	322,640	131,928	123,492	95,536	88,914	80,884
Net Profit (000 TRY)	91,848	65,408	66,954	60,918	60,299	53,095
Net Profit Margin (%)	28.47	49.58	54.22	63.76	67.82	65.64
ROAA (%)	-	5.13	5.94	5.79	6.10	5.70
ROAE (%)	-	6.23	6.63	6.28	6.47	5.92
Equity/Assets (%)	77.51	76.86	89.10	90.31	94.06	94.44
Annual Growth Rate (%)	11.95	19.89	5.91	8.36	4.56	7.62

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Company Information	
Trade Name	İŞ GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.
Address	İş Kuleleri Kule-2 Kat:10-11 4. Levent 34330 İstanbul
Chairman	Mr. Aydın S. ÖNDER
CEO	Mr. Turgay TANES
Investor Relations	Head of IR, Ms. Ayşegül Şahin KOCAMEŞE IR Supervisor, Ms. Mine KURT Phone: +90.212.350.23.50 investorrelations@isgyo.com.tr
Web	www.isgyo.com.tr

Overview

İş Gayrimenkul Yatırım Ortaklığı A. Ş. (Company or ISGYO) was established under the name İş Gayrimenkul Yatırım ve Proje Değerlendirme A. Ş. by parent company İş Bankası A. Ş. and its affiliates in September 1998. After taking over Merkez Gayrimenkul Yatırım ve Proje Değerlendirme A. Ş. the Company was converted into a real estate investment trust (REIT), completed its IPO and began public trading on the Istanbul Stock Exchange (ISE) in December 1999. As of December 2013, the Company had a free float of 42% of its capital and currently ranks as the 5th largest REIT with 4,4% of market share in terms of Mcap.

ISGYO carries out activities in the investment and development of real estate project in Turkey. The Company has high profitability and low debt ratios; its investments were funded with its equity. Since 2005 the Company has been listed on the ISE's Dividend Index due to its consistent distribution of dividends to shareholders.

The controlling shareholder with 42.2% of shares İş Bankası A.Ş., one of the largest retail banks in Turkey, holds privileged shares of ISGYO that determine the majority of the Board. In addition, some Bank affiliates have 16% of the capital.

ISGYO not only stands out for its main activities but also for good corporate governance practices such as investor relations, transparency, internal control and risk management. The Board of Directors is composed of 7 non-executive members, two of whom are independent. Three functional committees have been established under the scope of the Board; Audit, Corporate Governance and Risk committees.

Strengths

- Existing a comprehensive internal control system
- Presence of a communication channel to securely inform the audit committee of illegal and unethical activities
- Healthy and spacious staff working area
- An effective transparency platform in Turkish and English languages through the Company's website
- High Board Member and Senior Management qualifications in terms of education and track record
- Absence of any lawsuit against the Company from stakeholders
- Consistent distribution of dividends to the shareholders

Constraints

- Absence of an executives member in the board
- Absence of internal regulations to broaden the exercise of minority rights beyond the current legislation
- Absence of an incentive system based on performance evaluation for Board members
- Lack of disclosure of senior management's remunerations per person

Publication Date: December 26, 2013
"Global Knowledge supported by Local Experience"

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1- Executive Summary and Rating Rationale

This revised report was prepared in light of JCR Eurasia Rating's original methodological procedures in accordance with the Corporate Governance Principles (the code) set by the Capital Market Board (CMB-Turkish SPK) and states the Company's level of compliance level with corporate governance principles as of December 2013. The report should be evaluated taking into consideration the previous report published on 27.12.2012 to better understands the Company's compliance level.

CMB Corporate Governance Principles (the code) were first published in 2003. Important revisions and changes were made at the beginning of 2012. The code consists of four main section; Shareholders, Public Disclosure and Transparency, Stakeholders and Board of Directors. These main sections' coefficients, which were determined by the CMB, have been recently changed as below;

- Shareholders: 25%
- Public Disclosure and Transparency: 25%
- Stakeholders: 15%
- Board of Directors: 35%

These coefficients were 25%, 35%, 15% and 25%, respectively, in the previous reports.

The Principles, detailed in communiqué Serial: IV, No: 56 are accessible on www.spk.gov.tr

The Board of Directors, shareholders' rights, stakeholders' rights and Company practices in terms of public disclosure and transparency have been assessed within the framework of CMB regulations and information as well as findings ascertained therein and has been quantified by assessments regarding weighting factors on which JCR Eurasia Rating has predicated the subcategories.

Subject to the preservation of integrity of regulations by the CMB and compliance with the limitations thereof, this revised report also covers such topics as implementations regarding "Outlook" determinations and "Financial Efficiency" analyses all of which exist in JCR ER's original methodological structure.

Findings and assessments within the content of the report are based on information and documents disclosed by the Company to the public through various channels and also submitted to JCR Eurasia Rating in writing and verbally, as well as reports and statistics by the CMB and CRA(Central Registry Agency).

Through the analysis of JCR Eurasia Rating's original methodology, the general compliance level of the Company with corporate governance principles as of December 2013 and the corresponding levels within the JCR Eurasia Rating's notation have been determined as follows;

- Numerical value is **8.81**,
- Convergence Level **AAA(Trk)** representing the category of "**Distinctive Compliance**",
- Notch degree (**a**) representing the category of "**Excellent**",
- Outlook (**Stable**)

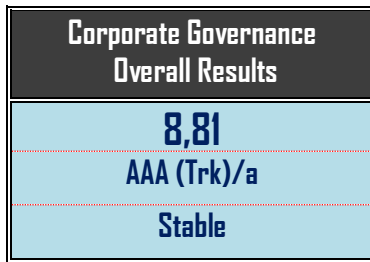
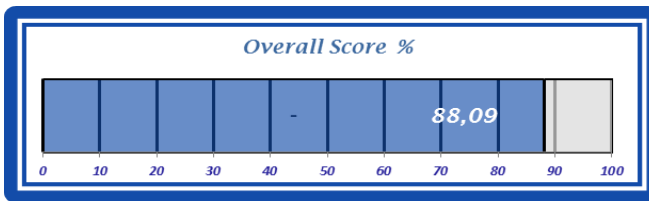
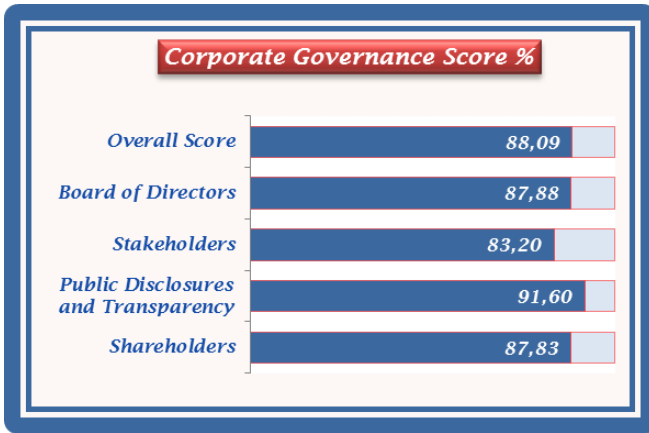
The company's Corporate Governance Principles Compliance scores, as published on 27.12.2012, can be seen in the table below;

December 27, 2012				
Fields	Numerical Value	Convergence Level	Notch Degree	Outlook
Shareholders	86,55	AAA(Trk) Distinctive	a Excellent	Stable
Public Disclosures and Transparency	88,90	AAA(Trk) Distinctive	a Excellent	Positive
Stakeholders	79,05	AA(Trk) Merit	bb Good	Stable
Board of Directors	82,63	AA(Trk) Merit	bbb Outstanding	Positive
Overall	85.27	AAA (Trk) Distinctive	a Excellent	Positive

Through both 12 months of observation from December 27, 2012 as well as a comprehensive review done in December 2013, JCR Eurasia Rating has reached the conclusion that ISGYO increased its compliance level in terms of four main sections. JCR ER, in parallel with developments mentioned in this report, has assigned the Company a compliance score of **8.81**. ISGYO's compliance with Corporate Governance Principles notes as of December 26, 2013 and their corresponding levels in JCR Eurasia Rating's notation system are given in the following table.

December 26, 2013				
Fields	Numerical Value	Convergence Level	Notch Degree	Outlook
Shareholders	8.78	AAA(Trk) Distinctive	a Excellent	Stable
Public Disclosures and Transparency	9.16	AAA(Trk) Distinctive	aa Superior	Stable
Stakeholders	8.32	AA(Trk) Merit	bbb Outstanding	Stable
Board of Directors	8.79	AAA(Trk) Distinctive	a Excellent	Stable
Overall	8.81	AAA(Trk) Distinctive	a Excellent	Stable

JCR Eurasia Rating's notation system may be viewed at: http://www.jcra.com.tr/Administrator/files/436_kyder_notation.pdf



Outlook (Corporate Governance):

JCR Eurasia Rating believes that ISGYO will maintain its high level of compliance during the 12 month monitoring period following the publication of the revised report. For this reason, the Company's Outlook has been determined as "Stable" for this rating period.

2. Company Overview

REITs are regulated by the CMB as a publicly held joint stock companies that invest in real estate. In this context, REITs are a special type of portfolio management companies and situated in the financial and real estate sector. REITs invest in real estate projects, rights based on real estates, capital market instruments based on real estate and capital market instruments.

Capital market institutions may be established in the form of an ordinary partnership to carry out particular projects and make investments and may operate in other activities allowed under CMB regulations. REIT activities are subject to certain limitations and they can only operate in the field of real estate-based portfolio management. In this regard, real estate investment trusts cannot have machinery and equipment as assets.

Additionally, REITs are prohibited from carrying out construction and project operations although they may

provide funding for construction undertaken by other companies. Therefore, REITs must have a free float of a minimum of 25 per cent. Under the Corporate Tax Law, REITs are exempt from corporation tax aiming to promote institutionalization, to increase the participation of the public offering in the real estate sector and to reduce the scope of informality.

ISGYO was established under the name İş Gayrimenkul Yatırım ve Proje Değerlendirme A. Ş. by its parent company İş Bankası A. Ş. and its affiliates in September 1998. The Company aims to invest in real estate, real estate project, rights based on real estate and other capital market instruments. After taking over Merkez Gayrimenkul Yatırım ve Proje Değerlendirme A. Ş. the Company was converted into a real estate investment trust (REIT) and completed its IPO. Shares began public trading on the Istanbul Stock Exchange (ISE) in December 1999.

According to 3Q2013 financial statements, the Company had an asset size of TRY1.460 bn., an equity amount of TRY1.132 bn., a total sales TRY323 mn. and a net profit of TRY92 mn.

As of September 2013, the number of total REITs on the ISE reached 29 with a market capitalization of TRY 17, 085bn. ISGYO is currently the 5th largest REIT with a 4,9% market share and TRY 838mn. Mcap.

According to the current shareholder structure disclosed on the Company's website, İş Bankası A.Ş. is the major shareholder, with a 42.2% share. Additionally, 900.000 shares (0.14%), which have the privilege of determining the majority of the Board members, are owned by İş Bankası A.Ş. Of the other remaining shares, Anadolu Hayat Emeklilik A. Ş. holds 7.1%, Anadolu Anonim Türk Sigorta Şirketi A. Ş. 4.8%. 3.9% are held by other shareholders and 42% are publicly traded on the ISE.

Kanyon Yönetim İşletim ve Pazarlama Limitet Şirketi and Nest in Globe B.V. are the two affiliates of ISGYO These consolidated affiliates are shown in the Table: 2 in the Appendices. The aim of Nest in Globe B.V. is to invest in real estate projects abroad.

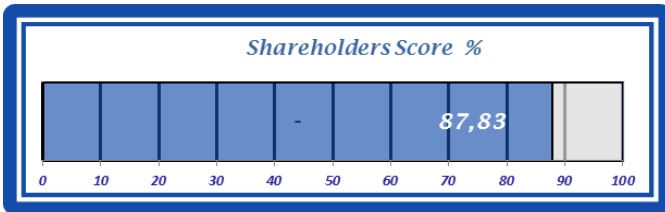
The Group carried out its operations with a labor force of 67 as of December, 2013.

ISGYO's Board of Directors consists of 7 members. All members are non-executive and two independent. The Audit, Corporate Governance and Risk committees were established under the scope of the Board. The independent members were appointed to the chairman of all committees. Detailed information on the Board is presented in Table: 4.

3. Shareholders

The Company's Shareholder score has been raised to 8.78 from 8.66. The primary reason behind this increase is their ability to participate electronically in the general meeting of shareholders. The company's level in this section and their corresponding notes are outlined below;

- Numerical value is 8.78,
- Convergence Level AAA(Trk) representing the category of "Distinctive Compliance",
- Notch degree (a) representing the category of "Excellent",
- Outlook (Stable)



Shareholders Results
8,78
Stable
AAA (Trk)/a

Activities carried out during the monitoring period in the Shareholder field:

- ✓ 207 inquiries via telephone and e-mail during the monitoring period were answered by specialists in the Investor Relations Department.
- ✓ The 2012 general meeting was held on March 26, 2013 at İş Kuleleri Kule-1 Kat: 41 4.Levent Beşiktaş, İSTANBUL. The meeting was observed by a JCR Eurasia Rating analyst and the works undertaken by the Company were closely observed prior, during and following the meeting. Pre-meeting preparations, announcements and invitations were carried out by the Investor Relations Department according to the Code. Within the framework of democratic principles, all shareholders were treated equally, the Company's 2012 activities were outlined, all shareholders were given the right to address each agenda item and voting was done by an open show of hands during the meeting. Following the meeting, the relevant documents were disclosed to investors on the Company's internet site.
- ✓ The shareholders have been able remotely to participate to the general meeting via e-GEM (Electronic General Meeting).
- ✓ Shareholders, stakeholders and prospective investors were regularly informed by the investor relations department via the web site, e-mail, teleconference, PDP (public disclosure platform) and e-governance platform of Central Registry Agency. Additionally, the managers of the department responded questions and inquiries received by

telephone from the shareholders and stakeholders. No complaints were made by the shareholders in the observation period.

- ✓ No shareholders have canceled any agreement or opened any lawsuit against the Company. No findings of discrimination against any shareholder were found.
- ✓ The company realized a net profit of TL65.408.398 in 2012 and the decision to distribute TL30.000.000 as the cash and TL30.000.000 as the stock dividend of this to shareholders was made in the general meeting on March 26, 2013. The dividend distribution table was disclosed to the public via the company's website and the PDP following the general meeting.

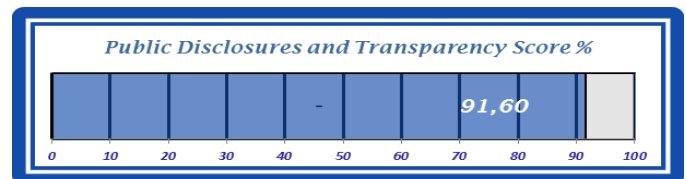
Outlook

JCR Eurasia Rating is of the opinion that the Company will maintain its level of compliance with Code in the Shareholders field during the following monitoring period. For this reason, the Outlook for this section has been determined as "Stable".

4. Public Disclosure and Transparency

The compliance level of the Company with the rules and implementations in the Public Disclosure and Transparency section has been increased to 9.16 from 8.89. The Company has been successful in maintaining and up to date web site in the monitoring period and also was published the annually report with high compliance level. The Company's level in this field and their corresponding notes are outlined below;

- Numerical value of 9.16,
- Convergence Level AAA(Trk) representing the category of "Distinctive Compliance",
- Notch degree (aa) representing the category of "Superior",
- Outlook (Stable)



Public Disclosures & Transparency Results
9,16
AAA (Trk)/aa
Stable

Activities carried out during the monitoring period in this field:

- ✓ ISGYO disclosed 30 notifications to the Public Disclosure Platform (PDP) in the monitoring period. Following these disclosures, the Company was not delisted on the BIST and no additional information was requested.
- ✓ The Company's quarterly financial statements were released to the public within the period specified by CMB legislation and posted on its internet site.
- ✓ The company's website is kept up to date in Turkish and English. A link to the PDP is included. Significant improvements in the Company's organizational structure and operations are published in a timely manner.
- ✓ The company publishes quarterly activity reports and annually compliance report with the code. The 2012 annual report was also published with high compliance level with the code.
- ✓ The Company's 2012 financial tables were audited by the independent audit firm Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş – KPMG. The company will be audited by same firm until 2016. There is no conflict interest with the audit firm.

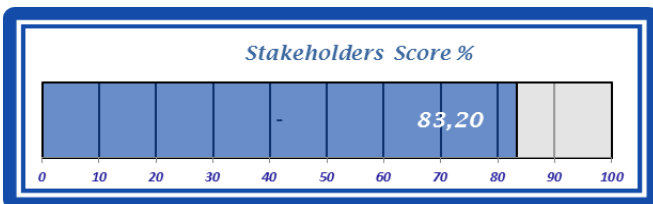
Outlook

JCR Eurasia Rating is of the opinion that the Company will maintain its level of compliance with Code in the Public Disclosure and Transparency field during the upcoming monitoring period. For this reason, the Outlook for this section has been determined as **"Stable"**.

5. Stakeholders

With the exception of upper-level managers, a company's employees, customers, suppliers, creditors, public authorities and the public in general are considered stakeholders of an institution. The rules and practices in this main section primarily aim to secure the rights of stakeholders, facilitate the exercise of their rights and thus to maximize their contributions to the institution.

- Numerical value of 8.32,
- Convergence Level AA(Trk) representing the category of "Merit Compliance",
- Notch degree (bbb) representing the category of "Outstanding",
- Outlook (Stable)



Stakeholders Results
8,32
AA(Trk)/bbb
Stable

Activities carried out during the monitoring period in the Stakeholders field:

- ✓ A communication channel was established to secularly inform the audit committee about unethical and illegal activities.
- ✓ The Company's headquarters was moved to a larger workplace in the same building with more spacious and safe working conditions.
- ✓ ISGYO hired 16 new employees, two employees left the company and no employee retired. No loss in employee rights was observed during these developments.
- ✓ No suits were filed considerably by the customers against the Company.
- ✓ No lawsuits were filed against the Company by suppliers.
- ✓ Within the scope of social responsibility, the Company was sponsored to Konak Municipality's woman handball team in 2013-14 seasons. The company did not make any donations and grants out of its generated profits in 2012.

Outlook

JCR Eurasia Rating is of the opinion that during the following monitoring period the Company will maintain its level of compliance with the code in the Stakeholders field. For this reason, the Outlook for this section has been determined as **"Stable"**.

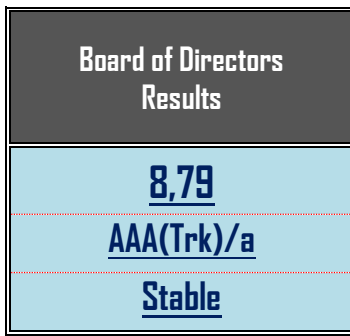
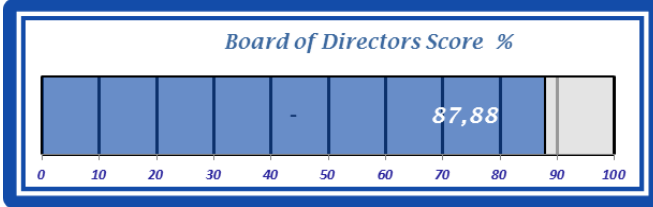
6. Board of Directors

This section consists of the board functions, qualifications, duties, powers and responsibilities of its members and upper-level managers, and the rules and practices related with established systems for effective supervision and control.

The company's compliance in the field of Board of Directors was increased to 8.79 from 8.26. The Board increased the number of members from 5 to 7 and carries out its duties in a highly effective manner. In particular, internal control activities were developed by the Board during the monitoring period.

The company's level in this field and their corresponding notes are outlined below:

- Numerical value is 8.79,
- Convergence Level AAA(Trk) representing the category of "Distinctive Compliance",
- Notch degree (a) representing the category of "Excellent",
- Outlook (Stable)



Activities carried out during the monitoring period in this field:

- ✓ At the general meeting held on March 26, 2013 the shareholders approved the 2012 activities of the Board of Directors.
- ✓ The number of board members increased to 7 from 5 in the general meeting.
- ✓ Mr. Engin TOPALOĞLU and Mr. Mete ULUYURT were elected as a board member in the general meeting. These changes were disclosed in a timely manner to the PDP.
- ✓ There is no change in the top management of the company.
- ✓ Ten Board of Director meetings were held during the monitoring period.
- ✓ All Board of Director Meeting preparations, applications and follow-ups were handled in accordance to Corporate Governance principles.
- ✓ The risk committee has been established within scope of the Board in monitoring period and independent member Cemal KARAĞLU was appointed as the chairman of the committee.
- ✓ The Corporate Governance Committee held 11 and the Audit committee 7 meetings. Recommendations made in these meetings were presented to the Board.

Outlook

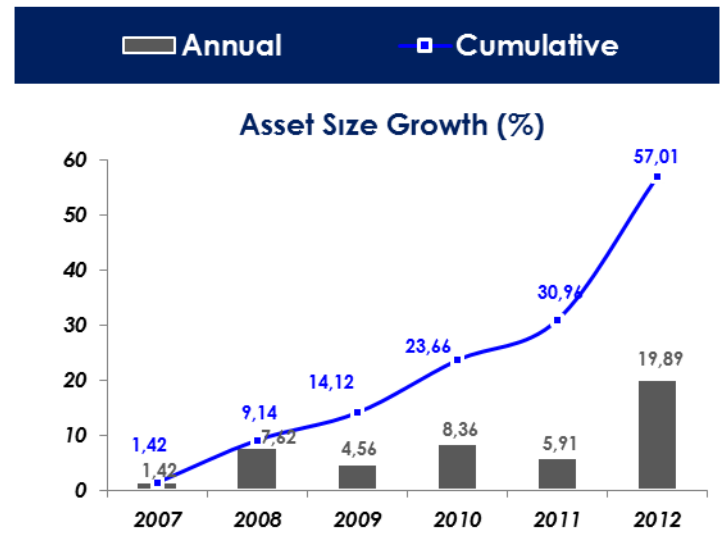
JCR Eurasia Rating is of the opinion that the Company will maintain its level of compliance with Code in the Board of

Directors field during the following monitoring period. For this reason, the Outlook for this section has been determined as "Stable".

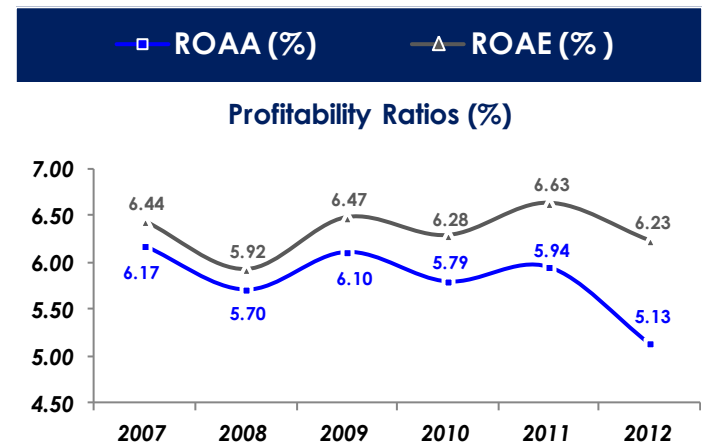
7. Financial Efficiency

According to the latest data, ISGYO ranked 5th with a market share of 4,4% behind Emlak Konut Gayrimenkul Yatırım Ortaklığı A.Ş., Torunlar Gayrimenkul Yatırım Ortaklığı A.Ş., Vakıf Gayrimenkul Yatırım Ortaklığı A. Ş. and Saf Gayrimenkul Yatırım Ortaklığı A. Ş. The total market share of the top 5 firms is around 68,8%.

Since 2007, the Company has exhibited a variant frequency growth on an annual basis and realized a cumulative asset growth rate of 57.01% during this period.



The Company, in terms of basic performance indicators such as profitability, ROAA and ROAE, followed a parallel course with average levels of local and international reference values.

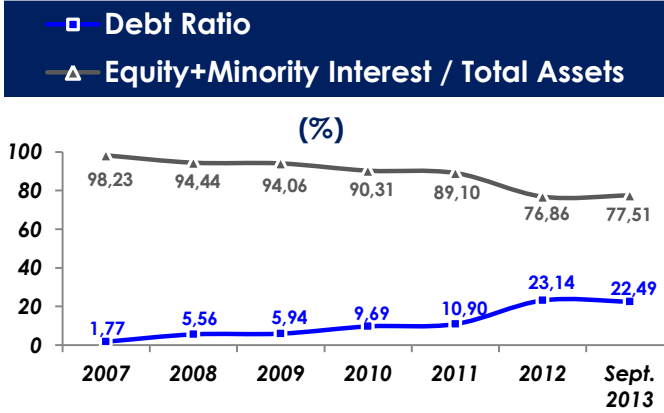


Taking into consideration the improvement in leverage ratios it can be determined that the Company has an adequate capital structure in its balance sheet composition. In the

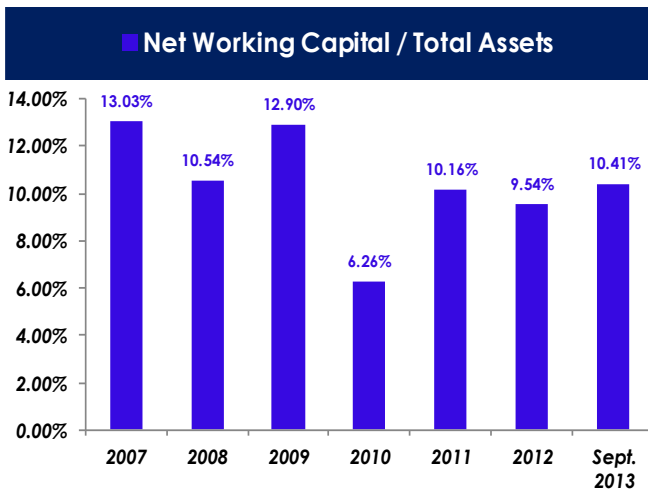
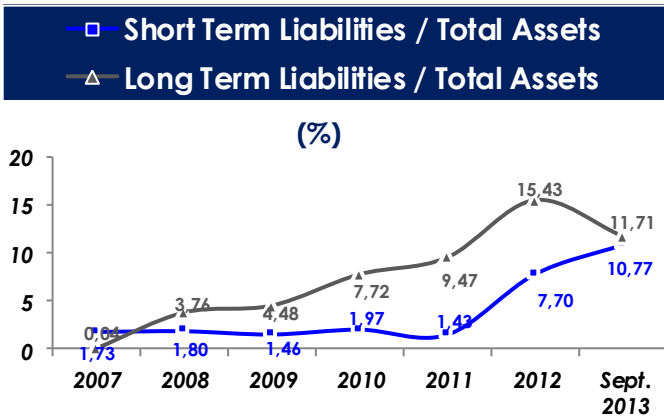
existing structure, equity was the largest resource and the source of the fastest growth.

8. Appendix

(3 Tables)



Long-term liabilities increased faster than the growth rate of short-term liabilities as a result of their contribution to working capital, providing convenience for the liquidity management of the Company.



Consequently, the high level of equity maintained in previous balance sheets of ISGYO and the upward trend in positive profit performance provide adequate support to retain the level of compliance with the corporate governance principles.

TABLE:1

**İŞ GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.
 SHAREHOLDING STRUCTURE**

Years	2009	2010	2011	2012	Dec.2013
TL (000)	450.000	450.000	600.000	600.000	630.000
USD (000)	298.864	291.074	317.645	336.191	308.823
	Share	Share	Share	Share	Share
Shareholders	%	%	%	%	%
İş Bankası	42,23	42,23	42,23	42,23	42,23
Anadolu Hayat Emeklilik A.Ş.	7,11	7,11	7,11	7,11	7,11
Anadolu Anonim Türk Sigorta A.Ş.	4,77	4,77	4,77	4,77	4,77
İş Net Elektronik Hizmetleri A.Ş.	1,33	1,33	1,33	1,33	1,33
Others	2,60	2,92	2,92	2,60	2,60
Public	41,96	41,64	41,64	41,96	41,96
Total	100.00	100.00	100.00	100.00	100.00

TABLE: 2
AFFILIATES AND SUBSIDIARIES as of December 2013

Consolidated Subsidiaries	Head Quarters	Fields Of Activities	Interest Share %	Acquisition Date
Kanyon Yönetim İşletim ve Pazarlama Ltd. Şti.	Istanbul-Turkey	Shopping Center Management	50	06.10.2004
Nest in Globe B.V.	Amsterdam-The Netherlands	Construction	50	07.07.2011

**TABLE: 3
BOARD OF DIRECTORS**

Name	Task	Profession	Election Date	Experience (Years)	Education	Executive/Non Executive	Independent/Not Independent	Committee Membership
Aydın S. ÖNDER	Chairman	Banker	2011	27	Graduate	Non Executive	Not Independent	
M. Kemal FETTAHOĞLU	Vice –Chairman	Banker	2012	23	Master Degree	Non Executive	Not Independent	
Kemal ŞAHİN	Member	Banker	2004	25	Graduate	Non Executive	Not Independent	Risk Committee Member, Corporate Governance Committee Member
Mete ULUYURT	Member	Banker	2013	17	Master Degree	Non Executive	Not Independent	
Engin TOPALOĞLU	Member	Banker	2013	18	Ph.D.	Non Executive	Not Independent	
D. Sevdil YILDIRIM	Member	Manager	2012	25	Master Degree	Non Executive	Independent	Corporate Governance Committee Chairman, Audit Committee Member
H. Cemal KARAOĞLU	Member	Engineer	2010	25	Master Degree	Non Executive	Independent	Audit Committee Chairman, Risk Committee Chairman