

Case Study: Kuveyt Türk Katılım Bankası A.Ş. Sukuk

IFN Turkey 2012










Contents

- Introduction
 - State of the current Sukuk market
 - Milestones and distribution
- Recent Developments
 - Omnibus bill 2011
 - Omnibus bill 2012
 - CMB Communiqué

Introduction

- Global growth of Sukuk for the first 9 months of 2012 increased to U.S.\$109 billion (a 69% increase compared to the same period in 2011).
- Better pricing generally achieved in Sukuk compared to bonds.

Introduction

Select Case Studies					
	Case Study 1		Case Study 2		
	Conventional	Sukuk	Conventional	Sukuk	Sukuk
Issuer	 Tourism Development & Investment Co.	 Tourism Development & Investment Co.	 Emirates NBD	 Emirates Islamic Bank	 Emirates Islamic Bank
Amount Issued	US\$ 1 billion	US\$ 1 billion	US\$ 1 billion	US\$ 1 billion	US\$ 0.5 billion
Rating (S&P)	AA	AA	A3	A3	A3
Maturity	02/07/2014	21/10/2014	28/03/2017	18/01/2017	11/01/2018
Yield	1.87%	1.70%	3.86%	3.53%	3.65%

Recent Developments

Following suit of changes:

- CMB Communiqué dated April 2011
 - establish asset lease companies (*Varilik Kiralama*)
 - such companies able to issue and sell *Rental Certificates*



Recent Developments - Omnibus bill 2011

- Omnibus bill (Number 6111 dated 13 February 2011)
 - exempts corporations from 20% corporate tax payable on corporate earnings (i.e. sale of asset to one party and back is exempt from earnings tax)
 - VAT no longer applicable for sale and lease back transactions or lease certificates issued
 - Documents exempted from stamp duty
 - Income tax amendments:

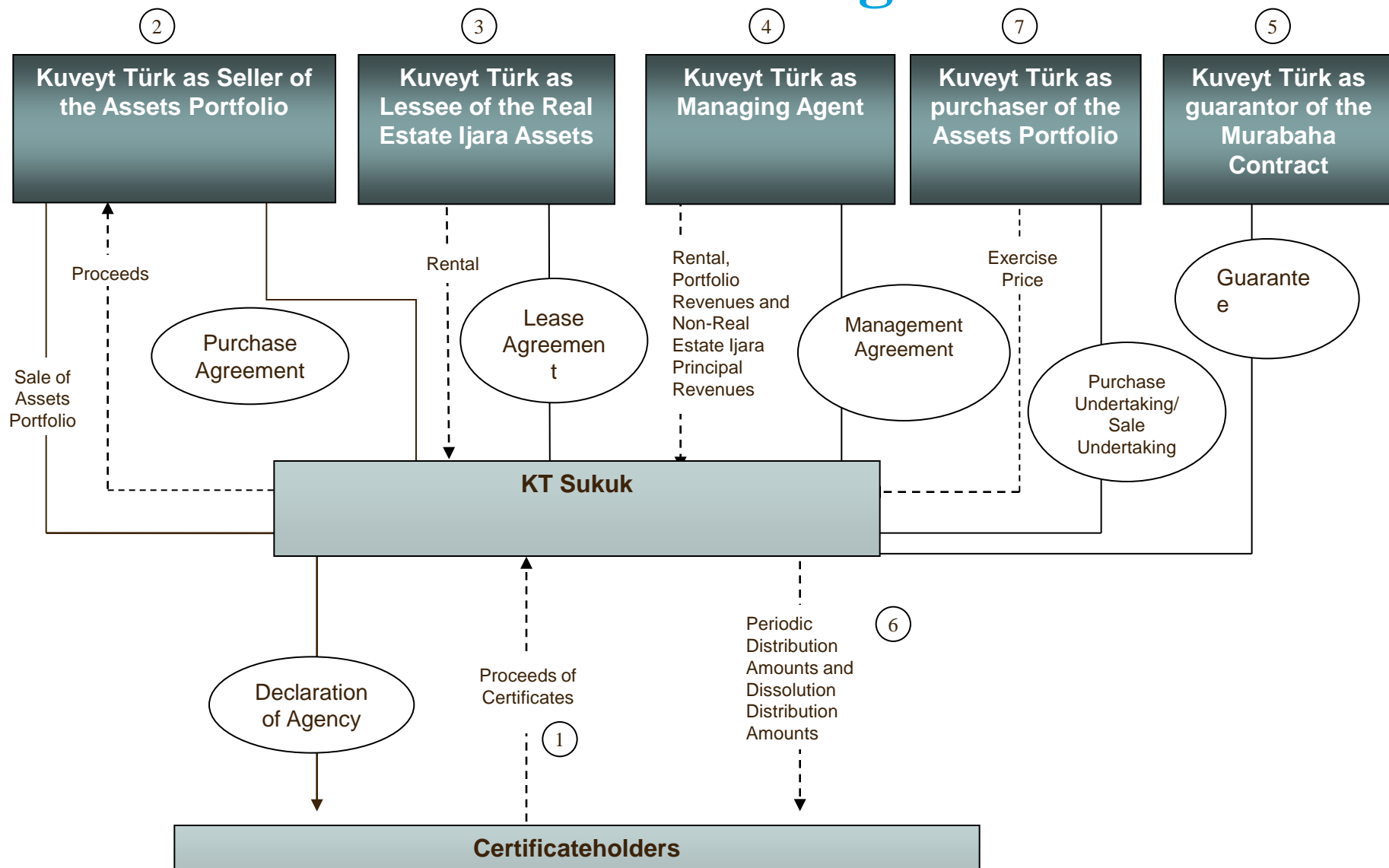
Earnings from <i>ijara</i> certificates issued offshore	Tax rate
5 yr maturity	exempt from tax income
1 yr maturity	10%
Maturities between 1yr to 3yrs	3%
Maturities between 3yrs and 5yrs	7%



Recent Developments - Omnibus bill 2012

- New omnibus bill (Number 6327 dated 13 June 2012
 - enabling issuance of Treasury Sukuk al Ijara.
 - treasury certificates can be issued onshore and offshore where underlying assets will be state owned movable or immovable properties.
 - excludes state-owned, publicly traded companies.

KT Sukuk - Structure Diagram



Assets Portfolio - What does it comprise

Step 1	Issue of Certificates: On the Issue Date, the initial subscribers of the Certificates paid the issue price in respect of the Certificates to the Issuer. In return, the Issuer issued the Certificates to the Investors.
Step 2	<p>Purchase of Assets by Issuer: The Issuer used the proceeds from the issuance to purchase the Portfolio of Assets. The Issuer entered into a Declaration of Agency, whereby it declared that it was and is holding on trust, <i>inter alia</i>, all rights to the Assets Portfolio for and on behalf of the Issuer.</p> <p>The Assets Portfolio is comprised of three types of asset:</p> <p>(i) Real Estate Ijarah Assets, which comprise of [<i>brief description of the Real Estate Ijarah Assets to be inserted</i>] (the Real Estate Ijarah Assets);</p>

Assets Portfolio - What does it comprise

Step 2 (cont.)	<ul style="list-style-type: none"><li data-bbox="374 319 1756 668">(ii) Non-Real Estate Ijarah Assets, which comprise of all rights, interests, benefits and entitlements (A) in and to [<i>brief description of the Non-Real Estate Ijarah Assets to be inserted</i>] (the Non-Real Estate Ijarah Contracts) and (B) under such Non-Real Estate Ijarah Contracts, but excluding any obligations or liabilities of Kuveyt Türk in respect of any such assets (the Non-Real Estate Ijarah Assets); and<li data-bbox="374 753 1756 1102">(iii) The Murabaha Assets, which comprise of all rights, interests, benefits and entitlements (A) in and to [<i>brief description of the Murabaha Assets to be inserted</i>] (the Murabaha Contracts) and (B) under such Murabaha Contracts and any other related Murabaha Contracts, but excluding any obligations or liabilities of Kuveyt Türk in respect of any such assets (the Murabaha Assets).
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Assets Portfolio - What does it comprise

Step 3	<p>Lease of the Real Estate Ijarah Assets: The Real Estate Ijarah Assets component of the Assets Portfolio is leased back to Kuveyt Türk pursuant to the Lease Agreement. This element of the structure follows a standard Ijarah structure.</p> <p><i>Management of the Real Estate Ijarah Assets:</i> The Issuer has also appointed Kuveyt Türk as its servicing agent in respect maintenance, structural repair, the payments of any propriety taxes and insurance of the Real Estate Assets.</p>
Step 4	<p>Managing Agent: Pursuant to the Management Agreement, the Issuer appointed Kuveyt Türk as the Managing Agent where it will undertake various management and operational tasks. The Non-Real Estate Ijarah Assets and Murabaha Assets component of the Assets Portfolio is managed by Kuveyt Türk as Managing Agent pursuant to the Management Agreement. This element of the structure follows the structure utilised by Kuveyt Türk in their 2010 Sukuk issuance in which a Managing Agent is appointed to manage the assets and the funds derived from these assets.</p>

Assets Portfolio - What does it comprise

Step 4 (cont.)	<p><i>Substitution of Assets</i></p> <p>Kuveyt Türk (as Managing Agent) may at any time, deal with, substitute or dispose of the Non Real Estate Ijarah Assets and the Murabaha Assets provided that in respect of such substitution or disposal, it substitute or replace such assets with new assets of the same value. On any Periodic Distribution Date the Managing Agent is also able to substitute any Real Estate Ijarah Assets provided that the value of the substituted asset is at least equal to or greater than the value of the substituted assets and the substitution of the assets is perfected before the land registry in Turkey.</p>
Step 5	<p>Guarantor: Pursuant to the Murabaha Guarantee, if any amounts payable by the underlying obligors under the Murabaha Contracts are not paid in full as and when due Kuveyt Türk as Guarantor will pay the amount of any shortfall to the Issuer in accordance with the terms of the Murabaha Guarantee.</p>

Assets Portfolio - What does it comprise

Step 6	Period Distributions: Pursuant to the Purchase Agreement, the principal source of payments to the Issuer (and in turn to the Certificateholders) are the [rental payments for the Real Estate Ijarah Assets and Non-Real Estate Ijarah Assets and the receivables from the Murabaha Contracts] [<i>Prospectus states: The Managing Agent will pay to the Issuer an amount reflecting the rental received in respect of the Real Estate Ijarah Assets which is intended to be sufficient to fund the Periodic Distribution Amounts payable by the Issuer under the Certificates and shall be applied by the Issuer for that purpose</i>].
Step 7	Dissolution: Upon the occurrence of an event of default, Total Loss Event, an early redemption for tax reasons or on the scheduled redemption date Kuveyt Türk is obliged, pursuant to the terms of the Purchase Undertaking, to purchase the Portfolio of Assets from the Issuer at the Exercise Price (as defined below).

Assets Portfolio - What does it comprise

Step 7 (cont.)	The Exercise Price is the sum of (i) the outstanding face amount of the Certificates; (ii) all accrued and unpaid periodic distribution amounts (if any) relating to the Certificates; and (iii) any Ijarah management expenses in respect of which an appropriate rental payment has not been made in accordance with the Lease Agreement and Management Liabilities Amounts that have not been paid in accordance with the Management Agreement.
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KT Sukuk: Assets Portfolio

- The Assets Portfolio comprises of:
 - Real Estate Ijara Assets (comprising of certain real estate assets);
 - Non-Real Estate Ijara Assets (comprising of all rights, interests, benefits and entitlements in and to certain non-real estate assets in relation to which the Seller or any person has entered into a non-real estate ijara contract); and
 - Murabaha Assets (all rights, interests, benefits and entitlements in and to certain assets evidenced by the murabaha contracts).



KT Sukuk: Assets Portfolio (Cont.)

- Tangible assets to always retain 51% of aggregate face amount
- Sukuk was subject to a Declaration of Agency
 - Entered into between Kuveyt Türk, the Issuer, the Certificateholders' Agent and the Certificateholders' Representative
 - Issuer acts as Certificateholders' Agent for and on behalf of the Certificateholders
 - The Certificateholders' Agent appoints the Certificateholders' Representative as attorney of the Certificateholders to act in their name and on their behalf in respect of the Certificateholders.

KT Sukuk: Investor Distribution Profile

Kuveyt Türk Sukuk

USD 350 million RegS Sukuk due October 2016



On 20th October 2011, Kuveyt Türk Participation Bank ("Kuveyt Turk") priced a USD 350 million 5 year Sukuk due 2016

This is the first benchmark debt capital markets issuance in sukuk format out of Turkey and the second transaction by Kuveyt Turk since its inaugural sukuk issuance in 2010

Kuveyt Turk was able to price its sukuk inside the current trading levels of conventional Turkish banks

Source: HSBC

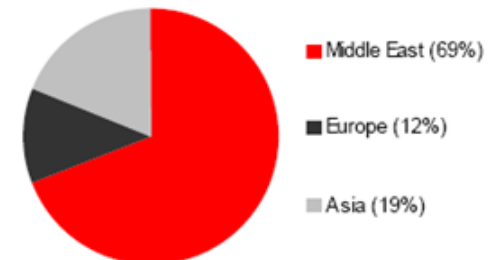
Transaction terms

Sukuk Issuer:	KT Sukuk Varlık Kiralama A.Ş.
Sukuk Obligor:	Kuveyt Türk Katılım Bankası A.Ş.
Sukuk Structure:	Hybrid (Rated BBB- by Fitch)
Format:	Regulation S (Registered), Fixed Rate
Spread over MS:	447.5bps
Profit rate:	5.875% - Priced at Par
Size:	USD 350 million
Maturity:	31 October 2016
Settle:	31 October 2011 (T+7)
Listing:	London Stock Exchange
Law:	English Law (Sukuk assets governed by Turkish Law)

Transaction highlights

- Kuveyt Turk issued the first benchmark Sukuk in Turkey leading the way for other Turkish participation banks and corporates.
- Kuveyt Turk launched the Sukuk on the back of a successful international roadshow, visiting key investors in Asia, the Middle East and Europe
- The issuer was also the first to tap the Sukuk market since the Summer period and received a strong bid from Islamic investors in the Middle East and Asia
- The deal received an excellent reception from the market with an orderbook approaching USD 560mn translating into a 1.6x coverage for the offering
- Initial price thoughts were released on Wednesday 19 October morning at 6.00% area.
- Driven by the substantial momentum generated in the orderbook soon thereafter, the transaction launched at 5.875% on Thursday afternoon
- The transaction affirms Kuveyt Turk's international appeal and the large acceptance by the Islamic investor community due to the credit and rarity value of Turkish Sukuk in the international markets

Breakdown by Geography



Breakdown by Investor Type

