

Republic of Turkey US\$ 1.5 Billion Sukuk Offering



Legal Framework



- Article 7/A of Public Finance and Debt Management Law regulating Sovereign Sukuk Issuances was introduced in June 2012.
- Article 7/A authorises the Deputy Prime Minister for Economic and Financial Affairs to incorporate Asset Leasing Companies and to transfer the Lease Assets to Asset Leasing Companies.

Legal Framework



Communique III/43 regarding the principles of Leasing Certificates and Asset Leasing Companies introduced in April 2010 does not regulate the Sovereign Issuance yet provides a basis for the principals applicable to the Sovereign Sukuk Issuances.

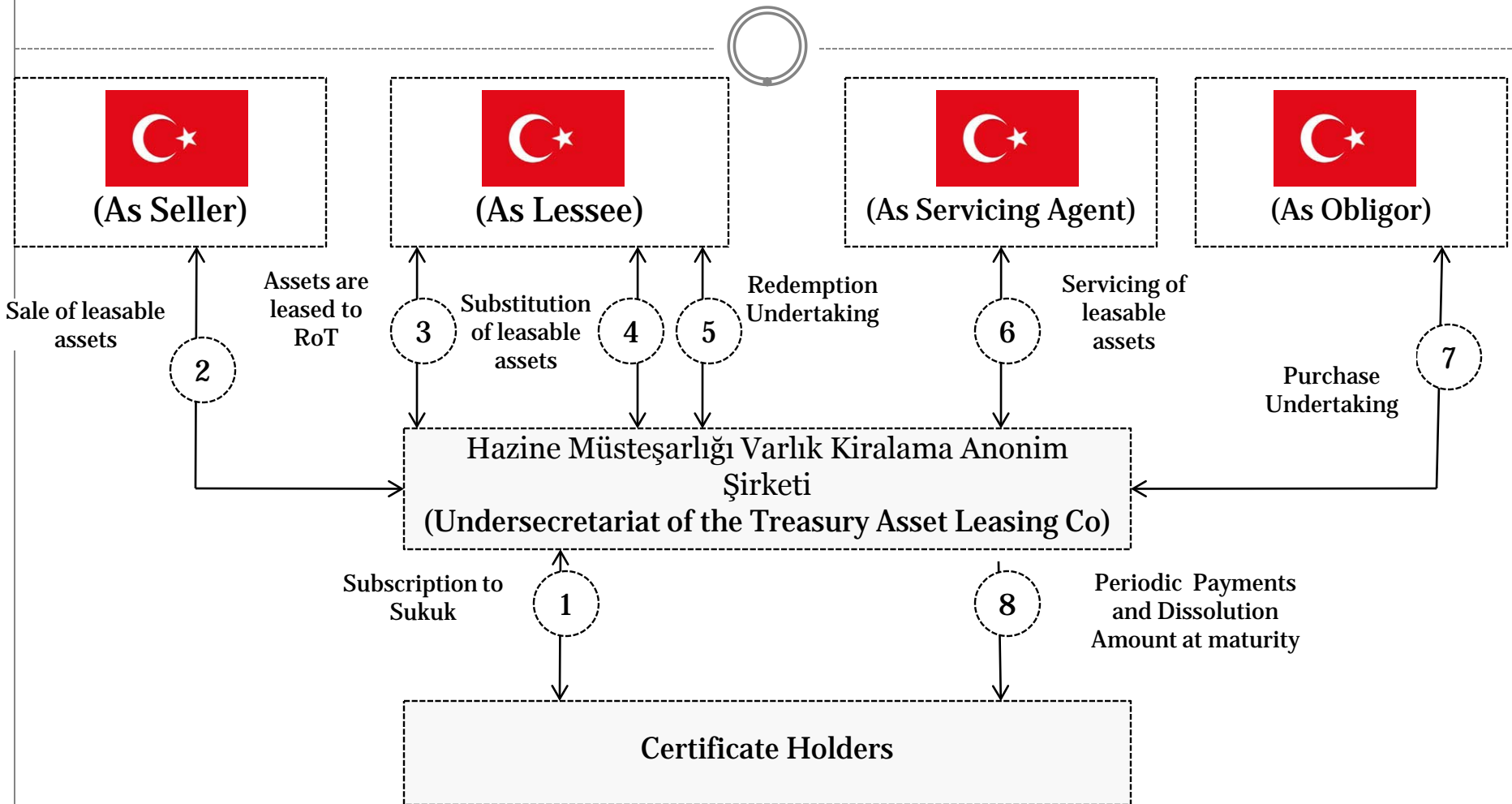
e.g the Asset Leasing Company of the Sovereign.

Legal Framework



- Exemptions from Stamp Tax, Withholding Tax, VAT and Corporate Tax for Sukuk Ijara Transactions (incl. Sovereign Sukuk) were introduced in February 2011 and April 2011.
- Sovereign Sukuk also benefited from exemptions available to all sovereign issuances.

Sovereign Sukuk Structure Overview



Sovereign Sukuk Structure Overview

Assets



- Pursuant to Article 7/A, Lease Assets are determined based on a Ministerial Decision.
- Lease Assets used in this Sovereign issuance are comprised of government buildings used by the Ministry of Health and the Ministry of Food, Agriculture and Livestock.

Sovereign Sukuk Structure Overview

ALC



- An asset leasing company (the "**ALC**") was incorporated in accordance with the Article 7/A of Public Finance and Debt Management Law and the Ministerial Decision.
- The sole shareholder of the ALC is the Republic.
- The ALC issued the lease certificates to investors in return for the issuance proceeds.

Sovereign Sukuk Structure Overview

ALC (cont.)



- ALC used the issuance proceeds to purchase the Lease Assets.
- ALC holds the Lease Assets in its name and for the account and the benefit of Certificateholders.
- The Certificateholders have a right to the income arising from the Lease Assets.

Sovereign Sukuk Structure Overview

Agreements



- **Sale Agreement** - ALC purchased all rights and title to the Lease Assets from the Republic pursuant to a Sale Agreement in consideration for a sale price equal to the Issuance Proceeds.
- **Lease Agreement** - ALC leased the Lease Assets to the Republic pursuant to a Lease Agreement for the term of the issuance.
- Sale and Lease Agreements recognise and permit the use of the Lease Assets by the Ministries.

Sovereign Sukuk Structure Overview

Agreements (cont.)



- **Substitution Undertaking** - By a Substitution Undertaking, the Republic is entitled to change the Lease Assets in the asset pool by requiring the ALC to sell to the Republic certain Assets in consideration for the transfer by the Republic of new Lease Assets. The Republic can exercise this right by delivering a Substitution Notice in which it can determine the date of Substitution.

Sovereign Sukuk Structure Overview

English Law Governed Agreements



- **Purchase Undertaking** - the Certificates may be redeemed prior to scheduled dissolution date of the Sukuk issuance upon the occurrence and continuation of certain dissolution events.
In such case, the Republic will be required to purchase the Issuer's interest, rights, benefits and entitlements in and to the lease assets and pay the Exercise Price to the Issuer pursuant to the terms of the Purchase Undertaking.
- **Redemption Undertaking** - the Issuer has granted a Redemption Undertaking in favour of the Republic pursuant to which the Republic is entitled to purchase lease certificates throughout the term of the Sukuk in the open market or otherwise. The Republic is able to require the Issuer to purchase and cancel the lease certificates in return for lease assets equal in value to the leasing certificates being redeemed.

Sovereign Sukuk Structure Overview

English Law Governed Agreements (cont.)



- **Representative Agreement** - pursuant to the representative agreement, the Representative will act as trustee for the Certificateholders and undertake certain administrative functions in respect of the Certificates and the Transaction Documents.
- Upon issue of the Certificates, the Representative shall hold, the benefit of certain covenants given by the Issuer on trust for the Certificateholders. Such covenants include, amongst others:
 - (i) the covenant to pay the face amount of the Certificates when due for redemption or repayment, and
 - (ii) the covenant to pay Periodic Distribution Amounts due to be paid to Certificateholders.

Sovereign Sukuk Structure Overview

English Law Governed Agreements (cont.)



- **Paying Agency Agreement** - pursuant to the paying agency agreement, the following appointments have been made:
 - (i) the Registrar has agreed to be appointed as agent of the Issuer to complete, authenticate and deliver the Global Certificates;
 - (ii) the Principal Paying Agent has agreed to be appointed as agent of the Issuer to pay all sums due under such Global Certificates, and to make all calculations and determinations in relation to amounts due under the Global Certificates; and
 - (iii) the Transfer Agent has agreed to be appointed as agent of the Issuer to effect requests to transfer all or part of the Definitive Certificates and issue Definitive Certificates in accordance with each request.

Sovereign Sukuk Structure Overview

English Law Governed Agreements (cont.)



- **Costs Undertaking Deed** - pursuant to the costs undertaking deed, the Republic irrevocably undertakes to and for the benefit of the Issuer and the Representative, that it will pay, as and when they fall due, all outstanding fees, costs and expenses due by the Issuer to an Agent pursuant to the Paying Agency Agreement (in which the Republic indemnifies each Agent against any claim, demand, action, liability, damages, cost, actual loss or expense (including, without limitation, legal fees and any applicable value added tax) and that it will pay all outstanding taxes (including any government related costs, fees, penalties and charges in relation to such taxes) to be paid by the Issuer to the Turkish tax authorities when they become due and payable.

Sovereign Sukuk Structure Overview

English Law Governed Agreements (cont.)



- **Servicing Agency Agreement** – so long as the Certificates are outstanding, the Republic as servicing agent is responsible for ensuring (on behalf of the Lessor), that the lease assets are insured for the performance of all major maintenance and structural repair and for the payment of any proprietorship taxes.
- To the extent that it is reasonable and commercially practicable to do so, the assets are required to be insured in a manner which is compliant with the principles of Islamic finance.
- The Servicing Agent may delegate its obligations under the Servicing Agency Agreement to the relevant government ministry which has been allocated the use of a specific asset from the lease assets.
- It is not required that the insurances for the lease assets are entered into with third parties and it the Republic will be permitted to self-insure the lease assets.

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