

Private Sector Perspective on Infrastructure Financing through Islamic Finance

12th Meeting of the Financial Cooperation Working Group



COMCEC

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Ankara

Synopsis of Kuveyt Türk

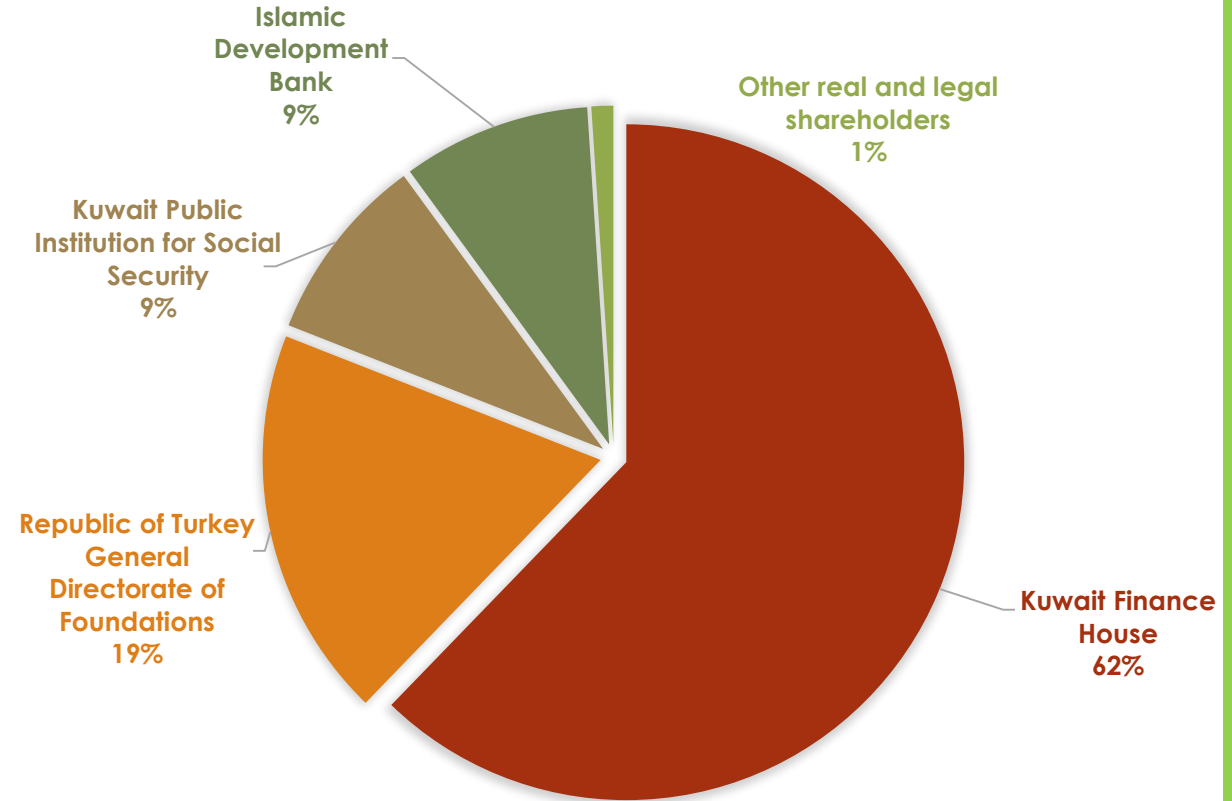
Kuveyt Türk started its activity in **31 March 1989** through the permit of Central Bank of Turkey.

Having celebrated its 29th year in Turkey as of 2019, providing its services with **5866 employees**, **414 branches** around Turkey, a branch in Gulf and a subsidiary in Germany

Being the first participation bank in Turkish PPP market, Kuveyt Türk provided **EUR 350 million credit line** to the transportation and health campus projects.

Financial Snapshots (TRY mm)	2016	2017	2018
Asset Size	48,407	57,123	74,232
Loans	30,000	36,000	47,000
Deposits	32,000	39,000	54,000
Shareholder Equity	4,000	4,591	5,439
Net Income	542	674	870
NPL	2,43%	1,98%	2,47%
Capital Adequacy Ratio	18,51%	17,66%	17,68%

SHAREHOLDER STRUCTURE



Our Experiences

Name of Project	Çanakkale 1915 Bridge
Type of Project	BOT
Total Investment Amount	€ 3.000.000.000
Total Loan Amount	€ 2.100.000.000
Kuveyt Turk's Participation	€ 150.000.000
Tenor	5+10 Years
Kuveyt Turk's Role	Islamic Facility Agent
Islamic Structure	Parallel Istisna



Our Experiences

Name of Project	Ankara-Niğde Motorway
Type of Project	BOT
Total Investment Amount	€ 1.410.000.000
Total Loan Amount	€ 1.100.000.000
Kuveyt Turk's Participation	€ 100.000.000
Tenor	3+10,5 Years
Kuveyt Turk's Role	Islamic Facility Agent
Islamic Structure	Parallel Istisna



- Existing Motorways
- Motorways in operation on BOT basis
- Motorways under construction on BOT basis
- Ankara-Niğde Motorway

Our Experiences

Name of Project	Bilkent Laboratory
Type of Project	BOT
Total Investment Amount	€ 700.000.000
Total Loan Amount	€ 495.000.000
Kuveyt Turk's Participation	€ 100.000.000
Tenor	3+12 Years
Kuveyt Turk's Role	Islamic Financier
Islamic Structure	Parallel Istisna



Challenges

- I. Limited Islamic Financing Products
- II. Limited Time Span for Financial Close
- III. Financial Risks
- IV. Legal and Regulatory Framework

I. Limited Islamic Financing Products

- Islamic Financing options:
 - Commodity Murabaha (for floating rate)
 - Parallel Istisna (for fix rate)
 - Ijarah (for fixed or floating rate)
- Commodity Murabaha is not a highly preferred product in Kuwait Turk b/c of resemblance to conventional banking.
- Parallel Istisna has some limitations:
 - Fixed Istisna price entails inflexible disbursement structure during long-term construction period
 - Islamic Banks as Investor Agent pose confusion among other conventional banks taking place in project
- Hesitation over pari passu sharing of securities under Ijarah

II. Limited Time Span for Financial Close

- Requirement that a project must be close within short periods (financial closure deadline) tightens the internal evaluation timeline on lender side.
- Determining a project and allocating credit limit requires time
 - Need for an internal financial due diligence and cash flow analysis
 - BoD Approval Requirement due to facility lines

III. Financial Risks

- Currency and Fixed-Rate Risk
 - Limited access to the Islamic hedge markets
 - Shallow and short-term Islamic hedge markets are not compatible with long-term facility agreements
- Shariah-based disputes/questions over swap operation in Islamic Finance
- Maturity miss match
 - Long-term financing with short-term deposits

IV. Legal and Regulatory Framework

- Compliance issues between legal framework and Shariah provisions.
 - Shariah based constraints on receiving some compensations by government/tender authority (e.g. penalty payments, default fee, late payment fee etc.)
 - Constrains on using specific Islamic Structures (e.g. Ijarah) due to the ownership rights of PPP assets.
- The legal framework has not been fully tested, yet

THANK YOU

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