

Turkey Domestic Corporate Bond Markets

April 2011

Corporate Bond Market Development in Turkey
Priorities and Changes
Istanbul, Turkey

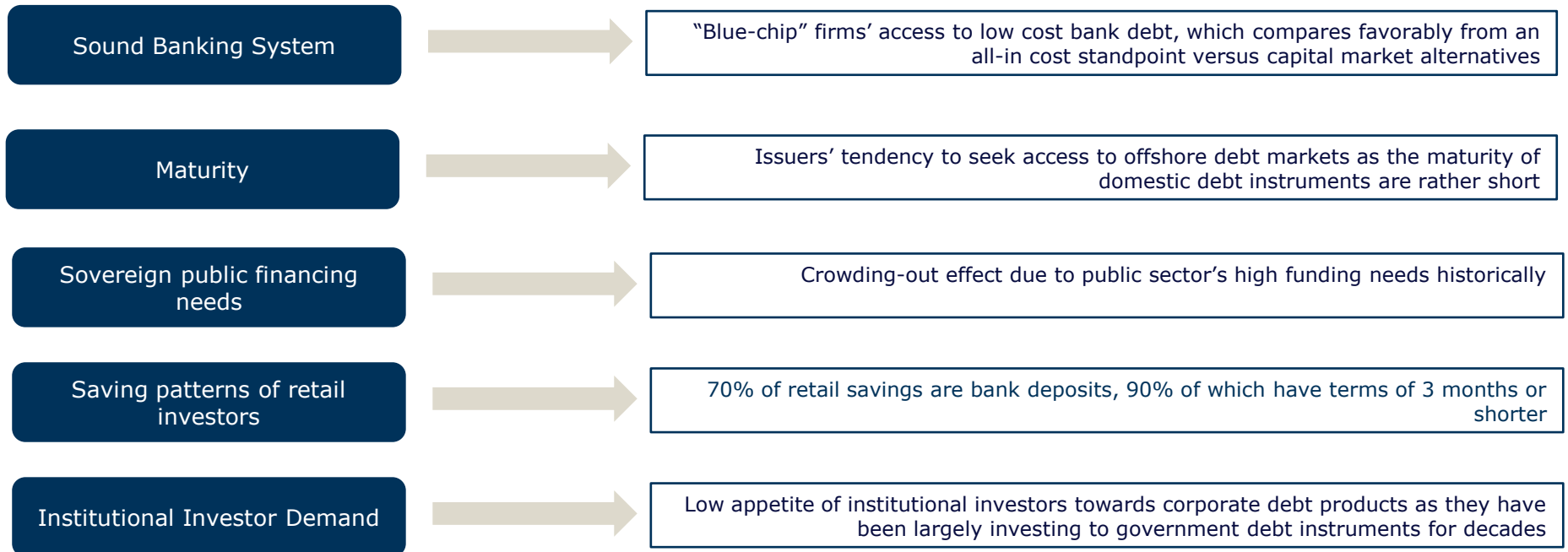
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**Domestic Corporate
Bond Markets**

▀ **Development of the Market**

Domestic Corporate Bond Markets

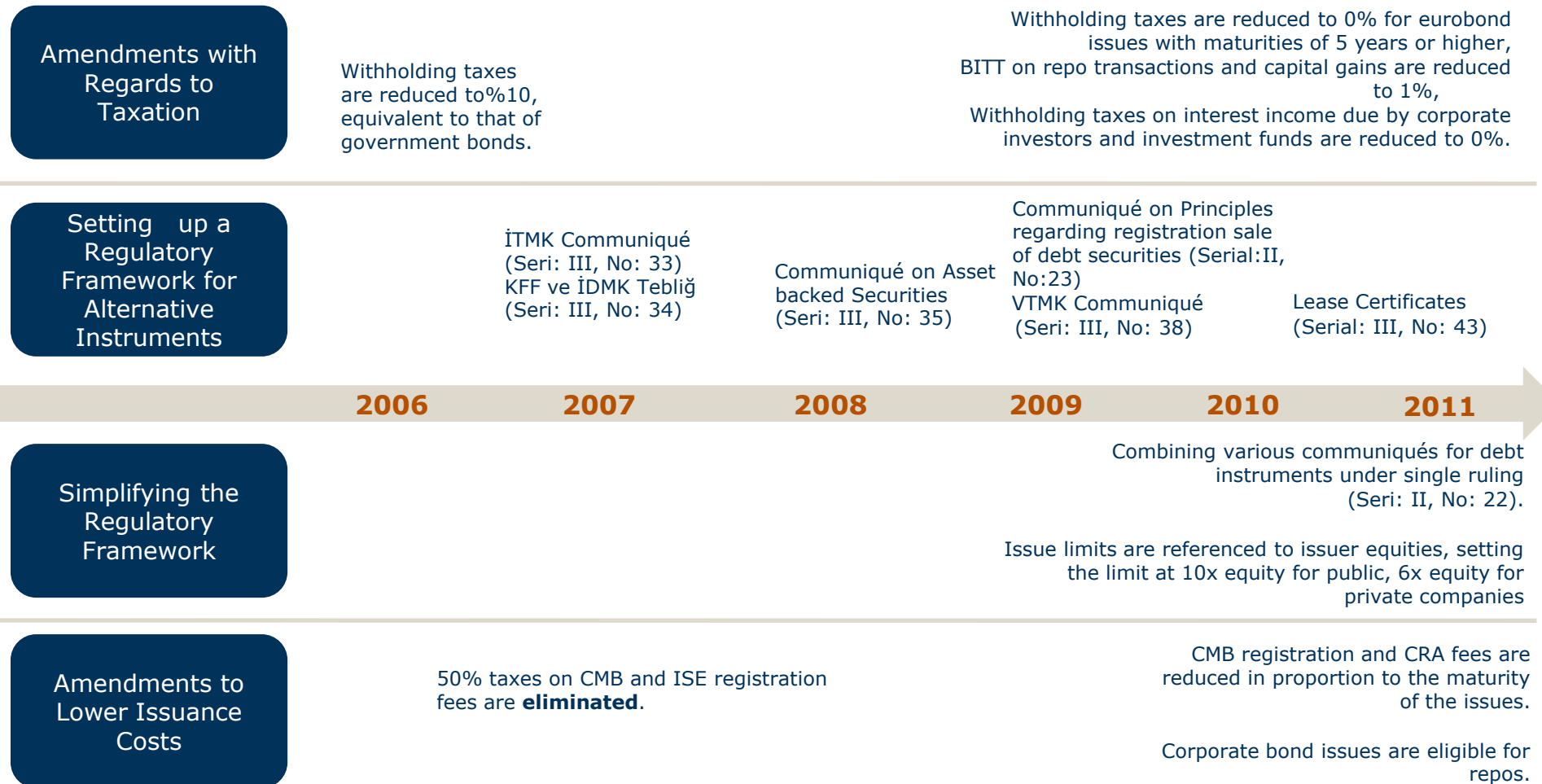
Opportunities and Suggestions



Declining public debt ratios, stabilizing interest rates at single digits and increasing investor demand for alternative fixed income products have created desirable conditions for the development of the corporate bond market.

Development of the Market –Laws and Regulations

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Following the new rules and regulations, issuance expenses (i.e. registration and other regulatory fees) have come down to c.25 bps (0.25%) for a two year bond issue.

Development of the Market – Issuer SWOT Analysis

- Alternative to existing funding channels
- Unsecured option without any collateral
- Provides funding flexibility
- Promotes corporate awareness and institutional image
- Motivates for higher operational efficiency as the company performance is continuously monitored by investors

- Preparation of the CMB application
- For public issues, mandatory disclosure of cost of funds to the public
- Public disclosure requirements for the term of the issue
- Mandatory reserve requirements for bank issuers independent of the maturity of the debt issued



- Central Bank policy rates are at historically low levels
- Low fixed costs
- Regulatory issuance limits of 10x equity for public, 6x equity for private companies
- Restructuring opportunity for higher cost short term debt profile
- Access to a broader investor audience by using alternative products such as convertibles.

- Not possible to issue FX denom. debt domestically
- Average maturities shorter than that of government bonds
- Risk averse investor base

- Yield pickup opportunity in the current low interest rate environment
- Withholding tax advantages for corporate investors and investment funds
- Eligibility of corporate bond in repo and reverse repo transactions
- Capital gain potential in addition to coupon income for total return oriented investors

- Inadequate liquidity compared to government bonds
- Issuer credit risks
- Limited blue-chip issuers, given their access to much cheaper bank debt
- 5% BITT for those investors subject to the BITT



- Higher return potential by investing in longer maturity issues
- Increasing the return potential by investing in longer term maturities
- Opportunities in collateralized products

- Bank issuers dominating the market and limiting the potential for corporate issuers
- Pricing risks due to inadequate assessment of true credit risks



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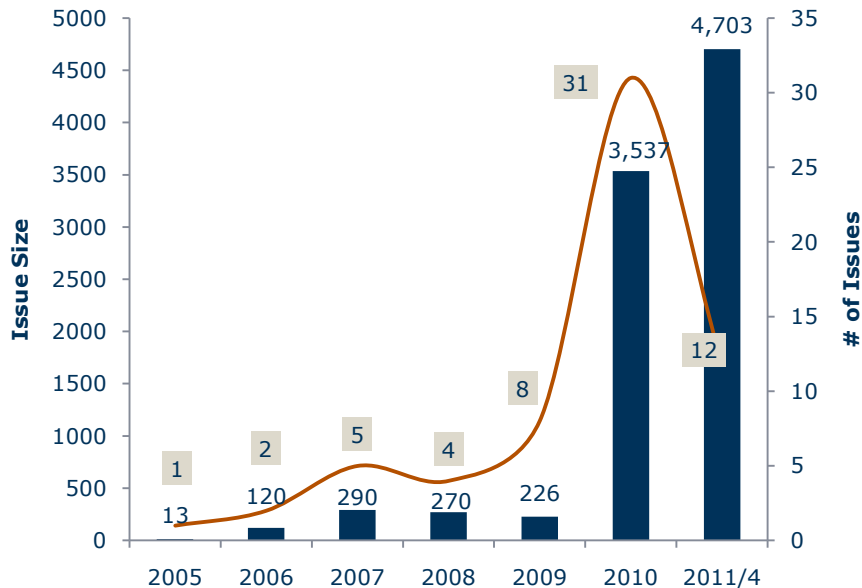
▶ **Domestic Corporate Bond Markets**

Opportunities and Suggestions

Domestic Corporate Bond Markets New Issues

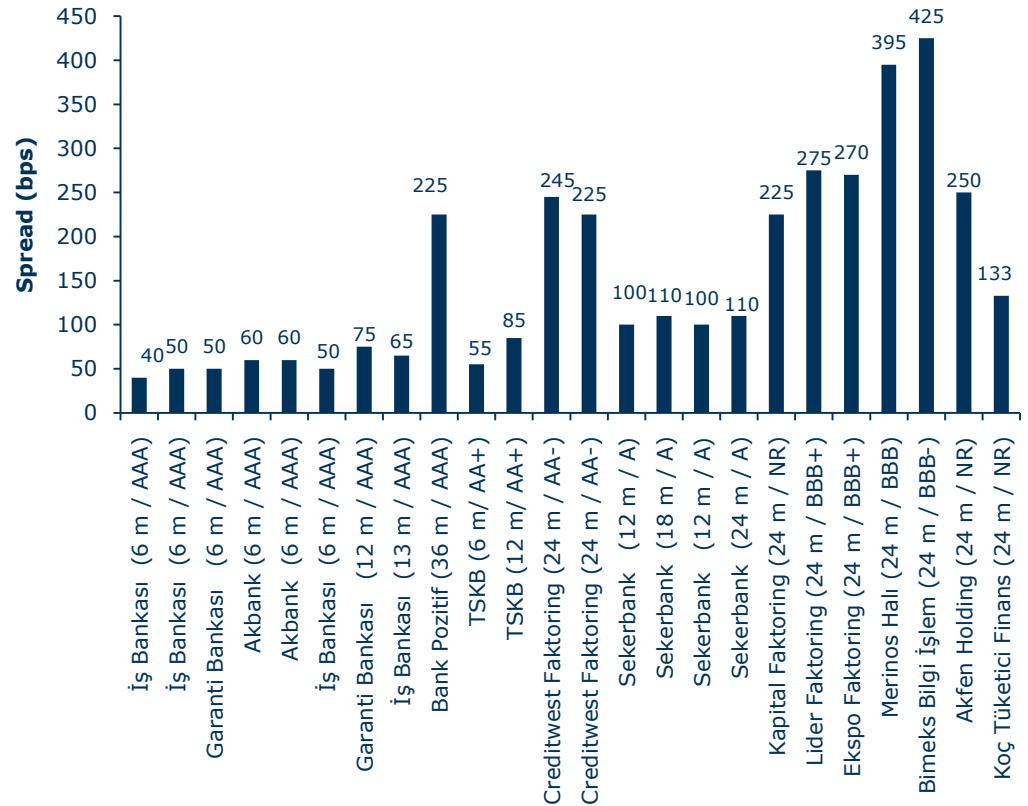
Issue Sizes

- 63 issues for a total size of TRY 9,150 mln have been placed since 2005
- More issuers from a variety of sectors have started to show interest in the market, while banks and financial sector companies have been predominant issuers so far
- The maximum issue size is TRY 1,000 mln



Maturity and Spreads

- Most of the new issues in 2010 and 2011 have a maturity of two years or less.
- All rated issuers have an investment grade rating on the national scale.



Domestic Corporate Bond Markets New Issues

Corporate Bond Offerings in 2010 and 2011

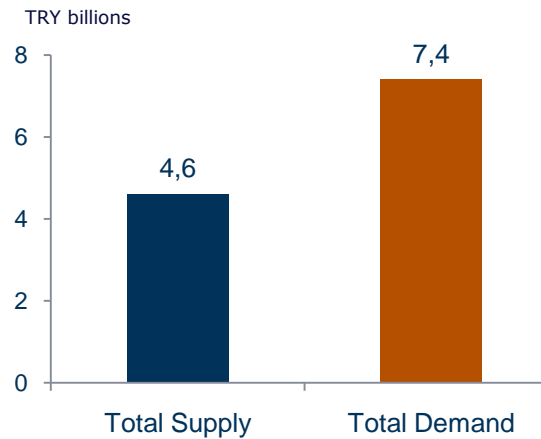
Issuer	Size (TL mn)	Coupon	Maturity	Rating (Local)	Pricing Date	Pricing	Yield at Issuance	Yield as of 13.04.2011
New Public Debt Issues in 2010								
Akfen Holding	100	Floating	2 years	-	5-Mar-2010	Benchmark +250bps	11.67%	11.18%
Creditwest Faktoring	50	Floating	2 years	AA-	4-Jun-2010	Benchmark +245bps	11.44%	11.57%
Lider Faktoring	50	Floating	2 years	BBB+	11-Jun-2010	Benchmark +275bps	11.76%	11.43%
Merinos Halı	50	Floating	2 years	BBB	22-Jun-2010	Benchmark +395bps	13.07%	11.23%
Bimeks Bilgi İşlem	31	Floating	2 years	BBB-	30-Jul-2010	Benchmark +425bps	12.72%	12.74%
TSKB	152	Discount	6 months	AA+	19-Aug-2010	6 Months Govt +55bps	8.20%	Matured
TSKB	48	Discount	1 year	AA+	19-Aug-2010	1 Year Govt +85bps	8.80%	8.40%
Bank Pozitif	100	Fixed	3 years	AAA	6-Oct-2010	Benchmark +225bps	10.36%	10.39%
Koç Tüketici Finans	100	Fixed	18 months	-	18-Oct-2010	Govt +133bps	9.15%	10.30%
Ekspo Faktoring	20	Floating	2 years	BBB+	19-Oct-2010	Benchmark +270bps	10.53%	N.A.
Creditwest Faktoring	50	Floating	2 years	AA-	30-Oct-2010	Benchmark +225bps	10.50%	11.23%
Koç Tüketici Finans	100	Fixed	2 years	-	11-Nov-2010	Benchmark +135bps	8.98%	10.50%
Akbank	1,000	Discount	6 months	AAA	11-Dec-2010	6 Months Govt +60bps	7.28%	8.27%
New Public Debt Issues in 2011								
Akbank	500	Discount	6 months	AAA	28-Jan-2011	6 Months Govt +60bps	7.56%	8.44%
Garanti Bankası	1,000	Discount	1 year	AAA	21-Jan-2011	1 Year Govt +75bps	7.68%	8.80%
İş Bankası	500	Discount	6 months	AAA	4-Feb-2011	6 Months Govt +50bps	7.50%	8.22%
İş Bankası	600	Discount	13 months	AAA	4-Feb-2011	1 Year Govt +65bps	8.43%	8.73%
Kapital Faktoring	50	Floating	2 years	NR	2-Mar-2011	Benchmark +225bps	10.73%	10.73%
Şeker Bank	150	Discount	1 year	A+	11-Mar-2011	1 Year Govt +100bps	9.73%	9.68%
Şeker Bank	200	Floating	18 months	A+	11-Mar-2011	Benchmark +110bps	10.20%	10.10%
Şeker Bank	35	Discount	1 year	A+	29-Mar-2011	1 Year Govt +100bps	9.73%	9.70%
Şeker Bank	115	Floating	2 years	A+	29-Mar-2011	Benchmark +110bps	10.11%	10.10%
İş Bankası	700	Discount	6 months	AAA	15-Apr-2011	6 Months Govt +40 bps	8.34%	N.A.
Garanti Bankası	750	Discount	6 months	AAA	20-Apr-2011	6 Months Govt +50 bps	8.41%	N.A.

Issuers typically have a credit rating. Issues with a size over TRY 100m have better liquidity in the secondary market.

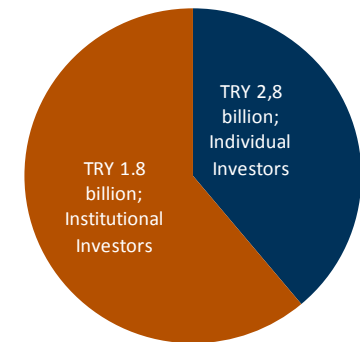
New issues as of 2011/4

- Akbank 500 mln TL-6 m
- Garanti Bank 1.000 mln TL - 1 yr
- İş Bank 500 mln TL-6 m
- İş Bank 600 mln TL-1 yıl
- Kapital Factoring 50 mln TL-2 yrs
- Şeker Bank 150 mln TL-1 yr
- Şeker Bank 200 mln TL-18 m
- Şeker Bank 35 mln TL-1 yr
- Şeker Bank 115 mln TL-2 yrs
- İş Bank 700 mln TL-6 m
- Garanti Bank 750 mln TL-6 m

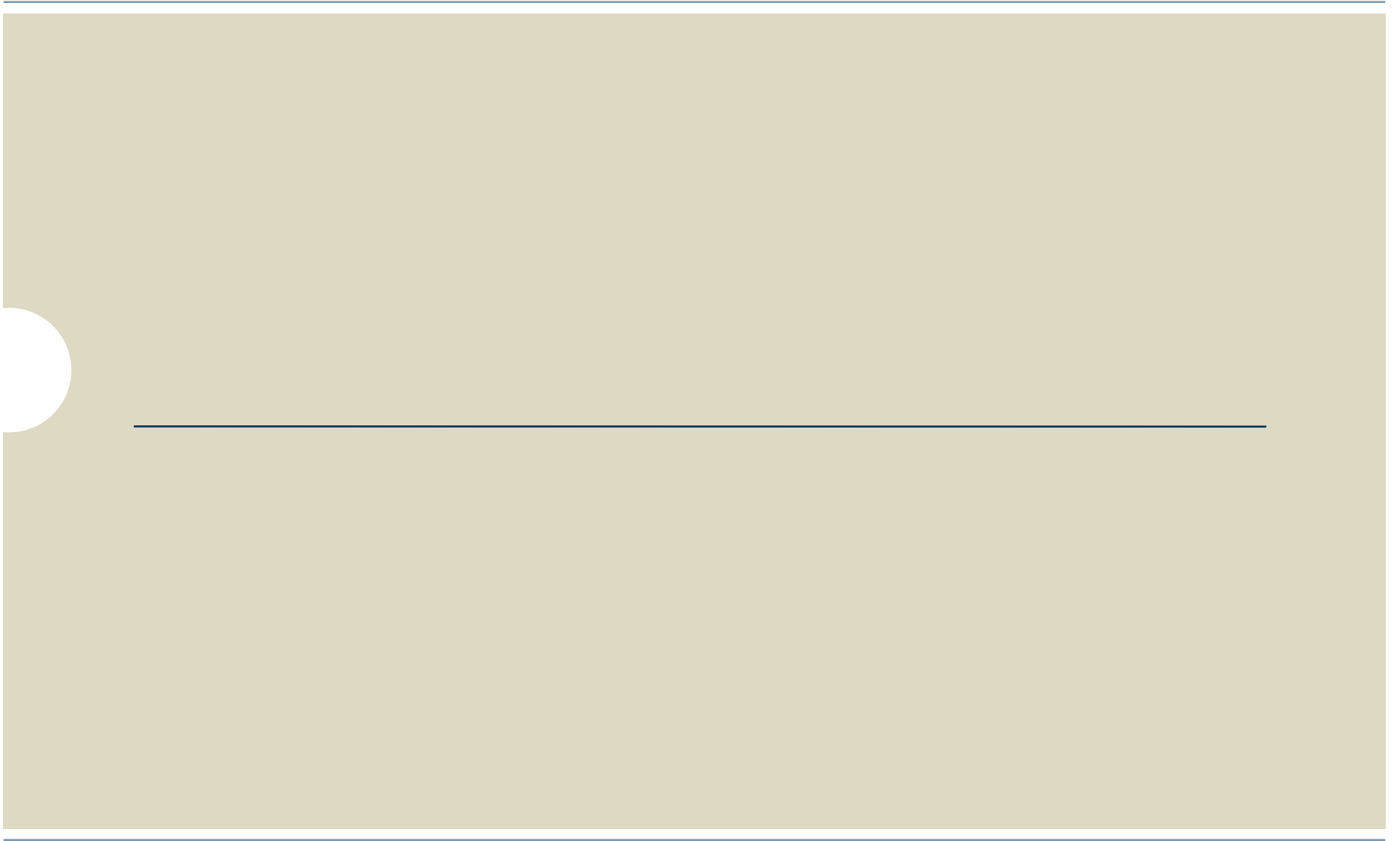
Demand Performance (2011/4)

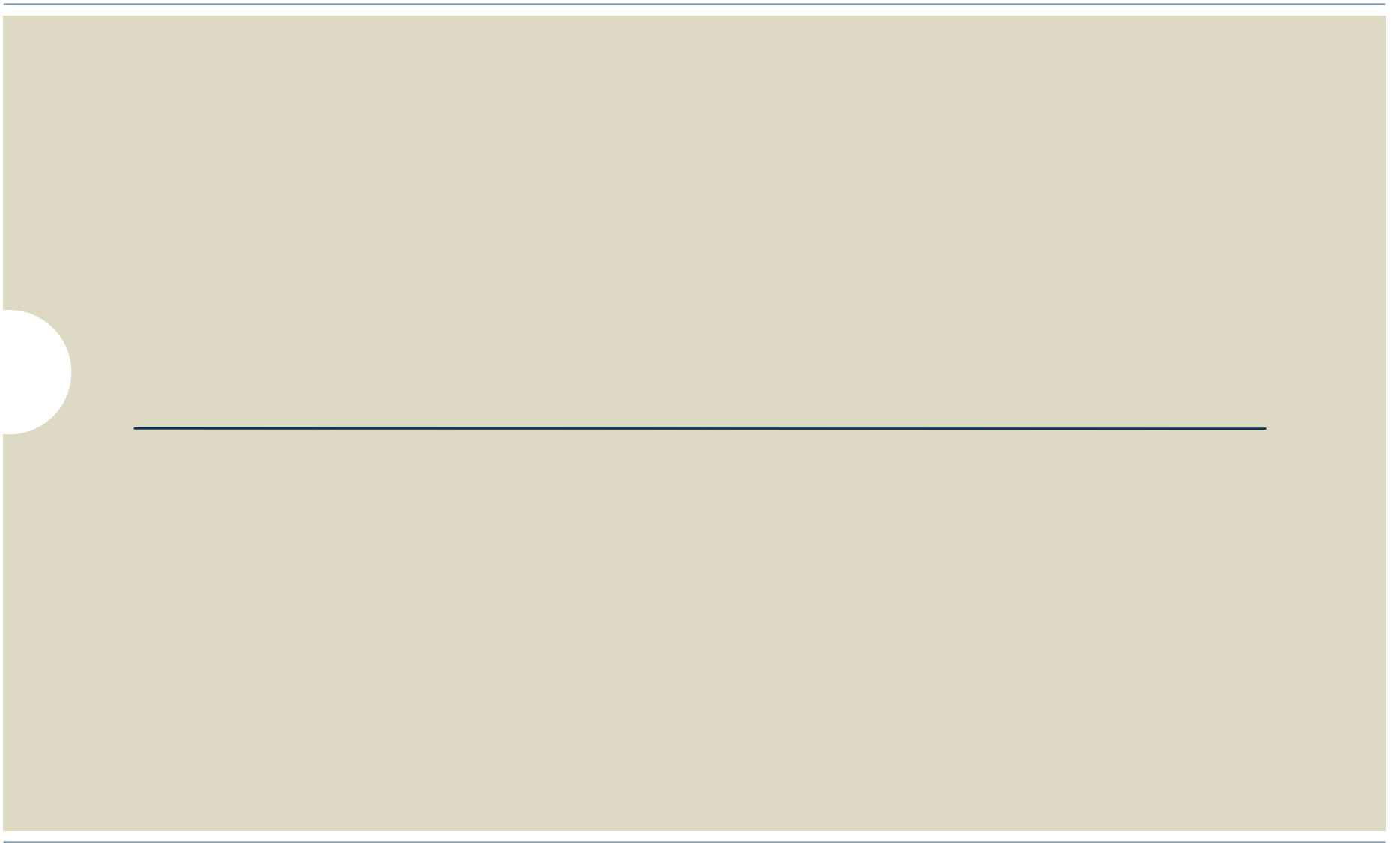


Allocations



12 issues have been placed for a total size of TRY 4.7 billion in 2011 with a bid to cover ratio of 1.6 (TRY 7.4 billion order book). Number of total participants (retail and institutional) was around 27,000.







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Development of the Market

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▀ **Opportunities and Suggestions**

Supply Side Opportunities

- More room for corporate bond issues as government has improved its debt profile and extended the maturity of its existing debt
- Issue costs are more feasible for issuers
- Banking sector needs long term funding sources to better match the duration of its assets with that of its liabilities
- Non-financial corporates seeking to diversify its funding sources after the global financial crisis.
- Opportunities might arise in sectors such as utility, energy, and transportation which have been currently going through a major privatization and investment phase and typically take a large share of corporate bond issues in developed markets

Demand Side Opportunities

- Investors switching large amount of FX deposits they have been historically holding to TRY instruments given the TRYUSD stability and low yields of FX deposits at the current environment
- Growing asset sizes of the pension funds, mutual funds, insurance companies and other institutional investors, which are more likely to invest in corporate bonds
- Competition among institutional investors
- Özel yatırım fonları arasındaki performans rekabetinin fon yöneticilerini ek getiri sunan ürünlere yöneltmesi
- Increasing appetite of global investors towards local currency fixed income products and global fund flows into local currency specialized funds
- Increasing foreign investor demand for TRY assets, in case Turkey's sovereign rating is upgraded to investment grade

On the supply side, more feasible issuance costs along with non-financial sector's efforts to diversify their funding source and on the demand side, increasing focus towards higher yielding products have been driving further growth in corporate bond issuance.

- Continuing stability in macroeconomic indicators
- Increasing penetration of professionally managed investment funds in managing savings
- Adapting to a credit culture among investors
- Establishing a transparent and reliable credit rating standards that would enable to differentiate the credit quality of issuers
- Increasing number of publicly trading companies and more companies demonstrating transparency required by credit investors
- More diverse issuer sector profile
- Providing a variety of products with different characteristics and maturities to suit the needs of investors with different risk appetites
- Encouraging the participation of foreign investors
- Eliminating the 5% BITT currently applied on coupon income and capital gains for financial institution investors
- Rearranging the reserve requirements of bonds issued by banks by incentivizing long term issues
- Simplifying the ISE listing application process

As long as macroeconomic indicators remain stable and institutional investor assets continue to grow, we expect the corporate bond market to accelerate its growth with total new issues reaching to TRY 11 billion in 2011.
