

Transaction Structure of GoP Domestic Ijarah Sukuk
(Jinnah International Airport Karachi)

Preamble

This structure is to facilitate the issuance of Government of Pakistan (“GoP”) domestic Ijarah Sukuk Program on the Jinnah International Airport Karachi (“JIAP”) as the Underlying Asset. The documentation for this structure will include a Sukuk Subscription Undertaking, Sukuk Issuance Undertaking, Purchase Agreement, Declaration of Trust, Agency Agreement, Ijarah Agreement, Service Agency Agreement, Purchase Undertaking, Cost Undertaking and Rules.

The Assets

The Jinnah International Airport Karachi together with identified, unencumbered and undisputed land of Civil Aviation Authority (“CAA”) surrounding the JIAP, identifiable by survey numbers and area, have been identified as the proposed Assets (the “Asset”) to facilitate issuance of GoP Ijarah Sukuk (the “Sukuk”). Valuation of the Assets is to be carried out by two PBA approved independent valuers, and the lower of the two valuations will be accepted as the sale price of the Assets.

The Structure - Explanation

1. State Bank of Pakistan (“SBP”) will conduct an auction through which Sukuk Investors (“Investors”) will be identified. Non-competitive bidders may also submit their bid for the Sukuk. For this purpose, non-competitive bidders will authorize any of the primary bidders through signing of an Authorization Form.
2. The Investors will execute the **Sukuk Subscription Undertaking** to record the commitments of the Investors to subscribe to the Sukuk to be issued by Pakistan Domestic Sukuk Company Limited (“PDSCL”). Under the Sukuk Subscription Undertaking, the Investors may appoint PDSCL as their agent (“Investment Agent”) for purchase of the Assets on their behalf and for the purposes set out in Sukuk Issuance Undertaking. The primary dealers will also sign the Sukuk Subscription Undertaking on behalf of successful non-competitive bidders.
3. PDSCL (as agent of Investors) and SBP’s Banking Services Corporation (“SBP-BSC”) will execute an **Agency Agreement** whereby PDSCL will appoint SBP-BSC as its agent (“Paying Agent”) to collect proceeds from the Investors, collect rentals and other payments due from GoP and distribute the same to the Investors, and act as reference agent and registrar for the Investors.
4. A **Sukuk Issuance Undertaking** will be executed by PDSCL, the GoP (acting through Ministry of Finance “MoF”) and the CAA in favor of the Investors, whereby PDSCL will undertake to issue the Sukuk to the Investors. Subsequent to the auction for the Sukuk, the Investors will provide their funds to SBP-BSC (Paying Agent) enabling it to pay (on behalf of the PDSCL as Agent of Investors) the purchase price of the Assets to GoP upon execution of Purchase Agreement. Each Sukuk to be issued will represent an undivided share in the ownership of the identified/ purchased portion of the Assets. Under the Sukuk Issuance Undertaking, PDSCL will also give its acceptance to appointment as Investment Agent of Investors.

5. The PDSCL, acting on behalf of the Investors, will enter into a **Purchase Agreement** with GoP (acting through MoF), for purchase of undivided ownership (expressed in terms of percentage) in identified portions of the Assets at an agreed price ("Purchase Price") equivalent to the Sukuk issue amount (being the amount agreed under the Sukuk Subscription Undertaking). The Paying Agent shall subsequently transfer the Purchase Price to the seller's (GoP) bank account.
6. Pursuant to the Purchase Agreement, ownership of the purchased portion of the Assets (the "Sukuk Assets") will be transferred to Investors while the registered title will remain with CAA. CAA will execute a **Declaration of Trust** in favour of the Investors to the effect that the CAA is holding the registered title of the Assets (the "Trust Assets") in trust for the Investors. Once the ownership of the Assets is transferred to the Investors, a document (Schedule 3 of Purchase Agreement signed by PDSCL and GoP, acting through MoF (as Seller), will be executed to prove that the possession of the Assets is handed over to PDSCL for and on behalf of the Investors which will legally confirm that all the risks and rewards of the Assets have passed on to the Investors.
7. Under the Declaration of Trust, CAA will delegate its duties and powers under the trust to PDSCL, with the exception of holding the registered title to the Trust Assets. SBP-BSC may also be made delegate for the specified purposes.
8. Following the purchase of the Sukuk Assets and obtaining possession through the above mechanism, the PDSCL, acting on behalf of the Investors, (as "Lessor") will enter into an **Ijarah Agreement** with GoP (as "Lessee" acting through MoF) wherein these Assets will be leased to GoP for a fixed period (3/5 years or any other agreed tenure) divided in rental periods of six months (each being a "Rental Period") against lease rental payments ("Lease Rentals") in accordance with the terms and conditions as specified in the Ijarah Agreement. Under the terms and conditions of the Ijarah Agreement, GoP will be allowed to nominate any of its affiliates e.g. CAA to use, operate and maintain the proportionate share of Investors in the identified/specified Assets as its nominee.
9. The **Lease Rentals for each Rental Period** will comprise an amount equal to the product of:
In case of variable rate:
 - i. the rental rate for such period (Weighted average yield of 6-month T-Bill as decided in last auction OR 6 month tenor rate as given on the Reuters PKRV page (121-180 days) in terms of SBP-FSCD Circular No. 13 dated September 6, 2008 plus the margin as decided in auction of Sukuk)
 - ii. the number of days in such rental period divided by 365, and
 - iii. the face value of the Sukuk issue.

Rental Rate for each period will be notified to GoP through a rental rate revision notice.

In case of fixed rate:
 - i. the rental rate (as to be decided in the auction of Sukuk issue and applicable for the entire lease term)
 - ii. the number of days in such rental period divided by 365, and
 - iii. the face value of the Sukuk issue.

The Lease Agreements provide that they shall automatically terminate if a Total Loss Event occurs and the Lessor will be entitled to any insurance/takaful proceeds payable as a result of the Total Loss Event.

10. A **Service Agency Agreement** will be executed between PDSCL (as Agent of Investors/Sukuk Holders) and GoP (acting through MoF) whereby GoP will be appointed as Service Agent to undertake services relating to the leased assets during the term of the lease in consideration for a nominal fee.

All routine maintenance is to be done by the Lessee whereas all major maintenance will be the responsibility of the Lessor. In case any major maintenance is required, the Service Agent would be under obligation to obtain prior permission from the Lessor, to incur the necessary expenses for carrying out such major maintenance.

11. GoP (acting through MoF) will execute a **Purchase Undertaking** in favour of the PDSCL to purchase the Sukuk Assets at the Exercise Price at maturity or upon an Event of Default. The Exercise Price shall be an amount equal to the initial Purchase Price for the Sukuk Assets plus any other amount due and payable by the GoP (excluding any accrued and payable rental by the Lessee). The GoP will also be liable to pay all amounts as per the Ijarah Agreement at maturity or upon an event of default. Upon exercise of the Purchase Undertaking at maturity or upon Event of Default and Termination, a Sale and Purchase Agreement shall be executed between the PDSCL and GoP (acting through MoF) to evidence the purchase of Sukuk Assets by GoP. The Purchase Undertaking will also specify all the events under which it will be exercised, including the time when a late payment of rental or GoP default in the performance of any other covenant or obligation in the Purchase Undertaking or Declaration of Trust will be deemed an Event of Default, and all cross default provisions.
12. GoP (acting through MoF) will execute a **Cost Undertaking** to pay all applicable fees and expenses and provide indemnities associated with the Sukuk issuance.
13. The Joint Financial Advisors (JFAs) of GoP shall be responsible for i) proper execution and ii) the legal documentation as per the approved Shariah Structure to ensure Shariah compliance and seamless management throughout the tenor of the Sukuk and at the time of the maturity of the Sukuk. Accordingly, the JFAs shall submit a compliance report to Islamic Banking Department of State Bank of Pakistan for each issuance & at the maturity of the Sukuk, and as and when required by Islamic Banking Department of State Bank of Pakistan.
14. Each time there is an additional requirement of funds by the GoP, the above process will be repeated until the whole of the Asset is purchased by the Investors/Sukuk holders by way of issuance through this structure or in case of reopening the relevant Shariah structure (which may be reviewed and considered by Shariah Advisory Committee of SBP).

Key Documentation

Sq. of Documents	Documents	Signatories	Reference
1	Sukuk Subscription Undertaking	Investors	Please refer to pt. 2
2	Agency Agreement	PDSCL and SBP-BSC	Please refer to pt. 3
3	Sukuk Issuance Undertaking	PDSCL, GoP (through MoF) and CAA	Please refer to pt. 4
4	Purchase Agreement	PDSCL and GoP (through MoF), acknowledged by CAA	Please refer to pt. 5
5	Declaration of Trust	CAA, PDSCL and SBPBSC	Please refer to pt. 6
6	Ijarah Agreement	PDSCL and GoP (through MoF)	Please refer to pt. 8
7	Service Agency Agreement	PDSCL and GoP (through MoF)	Please refer to pt. 10
8	Purchase Undertaking	GoP (through MoF)	Please refer to pt. 11
9	Cost Undertaking	GoP (through MoF)	Please refer to pt. 12
10	Rules	CAA, PDSCL, and SBPBSC	