

Annexure “C”

Transaction Structure of GoP Domestic Ijarah Sukuk (M1 Motorway)

Preamble

This structure is to facilitate issuance of Ijarah Sukuk on the M1 Motorway. The documentation for this structure will include a Certificate Subscription Undertaking, Certificate Issuance Undertaking, Purchase Agreement, Declaration of Trust, Agency Agreement, Ijarah Agreement, Service Agency Agreement, Purchase Undertaking and Cost Undertaking.

The Assets

The Highway Land together with all constructions and improvements thereon on the M1 Motorway (“Assets”) have been identified as the proposed Assets to facilitate issuance of GoP Ijarah Sukuk (“Sukuk”). The valuation of the assets is to be carried out by a PBA approved independent valuator to determine 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.
2. The Investors will execute the **Certificate Subscription Undertaking** to record the commitments of the Investors to subscribe to the Sukuk to be issued by PDSCL. Under the Certificate Subscription Undertaking, the Investors may appoint PDSCL as Investment Agent of FIs (Financial Institutions). Under the Certificate Issuance Undertaking, Investment Agent will also give its acceptance to appointment as Agent of Investors.
3. A **Certificate Issuance Undertaking** will be executed by PDSCL 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 Investors/ Investment Agent) 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 Assets.
4. 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 M1 motorway (‘the Assets’) at an agreed price (“Purchase Price”) equivalent to the Sukuk issue amount (being the amount agreed under the Sukuk Subscription Undertaking).
5. Pursuant to the Purchase Agreement, ownership of the Assets will be transferred to Investors while the registered title will remain with NHA. NHA will execute a **Declaration of Trust** in favour of the Investors to the effect that the NHA is holding the registered title 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 (as Investment Agent and Purchaser) and GoP acting through Ministry of Finance (as Seller) should be executed to prove that the possession of the Assets is handed over to PDSCL as Agent 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.

6. Under the Declaration of Trust, NHA 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.
7. NHA acting as the Trustee (through its Agent or Delegate Trustee i.e. PDSCL), and SBP's Banking Services Corporation (SBP BSC) will execute an **Agency Agreement** whereby Trustee will appoint SBP BSC as its Agent (Paying Agent) to collect proceeds from the Investors, collect the rentals from GoP and distribute the same to the Investors, and act as Reference Agent and Registrar for the Investors.
8. Following the purchase of an undivided share in the Assets and obtaining possession through the above mechanism, the Trustee (acting through PDSCL as its Delegate) 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 years), against Lease Rental Payment 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. NHA to use, operate and maintain the proportionate share of Sukuk holders in this 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 Rental

- 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 Certificates)
- ii. the number of days in such rental period divided by 365, and
- iii. the face value of the Sukuk issue.

Except for the first rental period, Supplementary Rental for each subsequent period being an amount equivalent to the expenses incurred by the Service Agent in respect of maintenance, repair and insurance / takaful of the Sukuk Assets equal to the amount payable by the Trustee (as Lessor) under the Service Agency Agreement (as notified to Trustee by the Service Agent) in respect of the most recently completed rental period.

Rental Rate for each period will be notified to GoP through a Rental Rate Revision Notice.

In case of Fixed Rental

- 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.
- iv. Except for the first rental period, Supplementary Rental for each subsequent period being an amount equivalent to the expenses incurred by the Service Agent in respect of maintenance, repair and insurance / takaful of the Sukuk Assets equal to the amount payable by the Trustee (as Lessor) under the Service Agency Agreement (as notified to Trustee by the Service Agent) in respect of the most recently completed rental period.

All routine maintenance is to be done by the Lessee whereas all major maintenance will be the responsibility of the Lessor. For each rental period except for the last period before maturity, major maintenance expenses will be adjusted in the supplemental rent for the succeeding period. In the last rental period before maturity the Lessor will incur all major maintenance expenses. The Service Agent would be required to submit details of all expenses incurred to the Trustee/Delegate two Business Days before the issuance of the Rental Notices for the next rental period. All expenses will require the approval of the Trustee/Delegate. In the last period before maturity of the sukuk, details of all expenses will be required to be submitted fourteen Business Days before the maturity date.

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 Trustee 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.
11. GoP (acting through MoF) will provide a **Purchase Undertaking** in favour of the Trustee to purchase the 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 Assets plus any other amount due and payable by the GoP, the Exercise Price will not include any accrued and unpaid rentals. The GoP will also be liable to pay all amounts as per the Ijara 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 Trustee and GoP (acting through MoF) to evidence the purchase of Assets by GoP. The Purchase Undertaking will also specify all the events under which it will be exercised including a Total Loss Event, the time when a late payment of rental or a 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** with the Trustee to pay all applicable fees and expenses and provide indemnities associated with the Sukuk issuance.
13. The Islamic Banking Department of State Bank of Pakistan shall be responsible for monitoring of: (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 maturity of the Sukuk.

Key Documentation

Sq. of Documents	Documents	Signatories	Signatories
1	Certificate Subscription Undertaking	Investors	Please refer pt. 2
2	Certificate Issuance Undertaking	PDSCL	Please refer pt. 3
3	Purchase Agreement	PDSCL and GoP (through MoF)	Please refer pt. 4
4	Declaration of Trust	NHA, PDSCL, SBP-BSC	Please refer pt. 5
5	Agency Agreement	NHA, GoP and SBP-BSC	Please refer pt. 7
6	Ijarah Agreement	PDSCL (as delegate of NHA) and GoP	Please refer pt. 8
7	Service Agency Agreement	PDSCL (as delegate of NHA) and GoP	Please refer pt. 10
8	Purchase Undertaking	GoP	Please refer pt. 11
9	Cost Undertaking	GoP	Please refer pt. 12