

## **MASTER MUDARABAH FINANCING FACILITY (MFF) AGREEMENT**

**This Master Mudarabah Financing Facility Agreement (“Agreement”)** has been entered into on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_ at Karachi

*By and Between*

\_\_\_\_\_Islamic banking Institution (IBI), a banking company incorporated under the laws of Pakistan and having its registered office at \_\_\_\_\_ Karachi, Pakistan having licence to undertake Islamic banking business by State Bank of Pakistan (hereinafter referred to as “IBI” which expression shall mean and include its successors in interests and assigns) acting as Mudarib ;

*And*

State Bank of Pakistan (SBP), incorporated under the State Bank of Pakistan Act, 1956, having its Registered Office at I.I. Chundrigar Road, Karachi, hereinafter referred to as SBP, (which expression shall, where the context admits, mean and include its successors in interest and assigns) acting as Rab-ul-Maal.

(“IBI” and “SBP” individually referred to as Party and collectively as Parties)

### **WHEREAS:**

1. IBI wishes to accept financing from SBP from time to time to be invested on the basis of Mudarabah.
2. SBP agrees to enter into an arrangement for financing of funds on the basis of Mudarabah with IBI who has requested for financing and presented itself to SBP as Mudarib.
3. The placement of financing by the SBP (Financing Transaction) will be governed by the terms and conditions of this Agreement.

### **DEFINITIONS:**

The following terms shall have the meanings assigned to them hereunder:

**“Business Day”** means a day on which banks are open for business in Pakistan;

**“Financing Request”** means request for funds by an IBI to SBP on the basis of Mudarabah.

**“SBP Financing Amount”** means the amount invested on the basis of Mudarabah by SBP in relation to a Financing Transaction;

**“Financing Transaction”** means each individual placement of the SBP Financing Amount on the basis of Mudarabah in the Special MFF Pool, the terms of which shall be confirmed by the Mudarabah Deal Confirmation;

**“Maturity Date”** means the date specified in the Mudarabah Deal Confirmation on which the related Financing Transaction shall terminate;

**“Maturity Proceeds”** means the amounts due to be paid to the SBP on the Maturity Date calculated with reference to the Profit Sharing Ratio stipulated in the Mudarabah Deal Confirmation;

**“Mudarabah Deal Confirmation”** means the deal confirmation generated by IBI setting out terms and conditions including SBP Financing Amount, Maturity Date and Profit Sharing Ratio in respect of each Financing Transaction to be disclosed as per format attached as Annexure “A”;

**“Profit”** means the gross profit or gross return accruing from the Special MFF Pool in relation to a Financing Transaction;

**“Profit Sharing Ratio”** means the ratio in which profit is to be shared between IBI and SBP in respect of each Financing Transaction;

**“Expected Rate”** refers to the rate at which IBIs can obtain funds overnight from SBP and it will be equivalent to the ceiling rate under SBP interest rate corridor framework.

**“Special MFF Pool ”** means the special pool of high quality assets allocated by IBI from the Business in which SBP’s funds shall be invested as a Mudarabah capital with IBI (hereinafter referred to as Special MFF Pool); (The Special pool can either be existing Special Pool or newly created Special Pool of the IBI.)

**“ High Quality Assets”** may include: (i) securities that are eligible as approved securities for maintaining Statutory Liquidity Requirement (SLR) for Islamic banks, (ii) investment grade Sukuk/ Term Finance Certificates (TFCs), (iii) financing to government/semi/quasi government entities, (iv) financing to blue chip companies i.e. companies with good track record on the stock exchange and/or having a rating of minimum ‘A’ or equivalent by the rating agencies approved by the State Bank for rating banks in Pakistan, and any other Shariah compliant asset as specified by SBP from time to time.

**“State Bank of Pakistan (SBP)”** means the central bank of the Islamic Republic of Pakistan;

**NOW THEREFORE** the parties hereby agree and undertake as follows:

## **1. FINANCING TRANSACTIONS:**

IBI will furnish a ‘Financing Request’ for the consideration of SBP. If SBP agrees to entertain the request then following procedure will be followed:

- 1.1 SBP shall place funds on the basis of Mudarabah with IBI pursuant to Financing Transactions entered into from time to time.

- 1.2 The SBP Financing Amount shall be invested in the Special MFF Pool on the terms stated in the Mudarabah Deal Confirmation.
- 1.3 SBP and IBI agree that SBP's funds shall be managed by IBI in a Special MFF Pool that would yield an expected percentage profit for SBP on SBP's Financing Amount ('Expected Yield on SBP Financing Amount') in terms of the agreed Profit Sharing Ratio (PSR) as defined in the Mudarabah Deal Confirmation.
- 1.4 Notwithstanding Clause 1.3, the Profit shall be determined between IBI and SBP on the Maturity Date, in accordance with the Profit Sharing Ratio (which is agreed at the time of entering into Financing Transaction and indicated on the Mudarabah Deal Confirmation) applied to the actual Profit earned in respect of each Financing Transaction.
- 1.5 At maturity of each financing transaction under MFF, SBP will be paid the financing amount along with its share of the profit determined as mentioned at point 1.4.
- 1.6 The loss (if any) incurred in respect of any Financing Transaction, will be borne by the Rab-ul-Maal, i.e. SBP.
- 1.7 In case of loss as mentioned in Clause 1.6 above is due to negligence, misrepresentation, or breach of contract by the IBI, the SBP shall not be responsible for such loss and IBI shall bear all losses in such cases.
- 1.8 IBI will provide SLR eligible Shariah compliant security/instrument as a collateral of a value, which is at least equivalent to the financing amount by SBP and its expected profit in the MFF Special Pool. This arrangement is proposed to mitigate the risk of negligence, misconduct or breach of contract by the IBI during the period of placement. The collateral provided by IBI shall be transferred to SBP's account and/or pledged / lien marked in favor of SBP for the tenure of the placement period under MFF.
- 1.9 SBP will have the right to dispose of the securities/instruments held as collateral under MFF in following cases:
- a) loss as mentioned in Clause 1.7
  - b) default in paying the earned/accrued profit and/or initial financing
- SBP will dispose of the securities/instruments held as collateral and the proceeds thereof to recover the outstanding amount (SBP financing amount in case (a) and SBP financing amount  $\pm$  profit/loss in case (b)) due from IBI under MFF. Any difference in the amount due from IBI under this MFF and the proceeds of such securities/instruments held as collateral will remain due from/to IBI as the case may be.
- 1.10 If there arises a conflict between the parties on Shariah related matters, the same will be forwarded to SBP Shari'ah Advisory Committee for final Shari'ah ruling and the decision thereof will be final and binding.

## **2. REPRESENTATIONS & WARRANTIES:**

Each Party represents and warrants for the benefit of the other Party from the date of this Agreement and on each Financing Transaction Date that:

- 2.1 It has the legal capacity to enter into this Agreement and the Financing Transactions contemplated hereunder;
- 2.2 The execution by it of this Agreement has been duly authorized;
- 2.3 This Agreement and each Financing Transaction contemplated hereunder shall be binding and enforceable upon it and will not violate the terms of any other agreement to which it is a Party; and
- 2.4 It has and will at all times maintain all authorizations, approvals, licenses and consents required to enable it to lawfully perform its obligations under this Agreement.

### **3. LAWS AND JURISDICTION:**

- 3.1 This Agreement is governed by and shall be construed in accordance with laws of the Islamic Republic of Pakistan.

**IN WITNESS WHEREOF** the Parties hereto have executed this Agreement on the date and place mentioned above.

*For and on Behalf of*  
**SBP**

**AUTHORIZED  
SIGNATURE**

**AUTHORIZED  
SIGNATURE**

#### **Witnesses**

1. Name \_\_\_\_\_  
Address \_\_\_\_\_  
\_\_\_\_\_

2. Name \_\_\_\_\_  
Address \_\_\_\_\_  
\_\_\_\_\_

*For and on Behalf of*  
**IBI**

**AUTHORIZED  
SIGNATURE**

**AUTHORIZED  
SIGNATURE**

#### **Witnesses**

1. Name \_\_\_\_\_  
Address \_\_\_\_\_  
\_\_\_\_\_

2. Name \_\_\_\_\_  
Address \_\_\_\_\_  
\_\_\_\_\_