

Transaction Structure of GoP Domestic Ijarah Sukuk

Preamble

This structure is to facilitate the issuance of Government of Pakistan (“GoP”) domestic Ijarah Sukuk Program on identified Underlying Assets (mentioned as “The Assets”). The documentation for this structure will include a Sukuk Subscription Undertaking, Sukuk Issuance Undertaking, Purchase Agreement, Title Agency Agreement, Agency Agreement, Ijarah Agreement, Service Agency Agreement, Purchase Undertaking, Cost Undertaking and Rules.

The Assets

Identified underlying assets of National Highway Authority (“NHA”) as defined below together with identified, unencumbered and undisputed land of NHA surrounding the identified assets. These lands would be identifiable by survey numbers and area, and would be identified as the proposed Assets (the “Asset”) to facilitate issuance of GoP Ijarah Sukuk (the “Sukuk”).

The underlying assets on which this structure can be used for fresh issuance as well as re-opening of GoP Ijarah Sukuk. These assets include the following:

- **Makran Coastal Highway (N-10):** Ormara (27,905 Kanal & 18 Marla)
The highway land along with all constructions and improvements thereon
- **Makran Coastal Highway (N-10):** Gawadar & Jiwani (17,042 Kanal & 10 Marla)
The highway land along with all constructions and improvements thereon
- **Grand Trunk Road (N-5):** Peshawar & Nowshera (6,172 Kanal & 15 Marla)
The highway land along with all constructions and improvements thereon
- **Indus Highway Project (N-55):** Peshawar, Kohat, Lachi, Banda, Daud Shah, Karak, Domair, Bannu, Norang, Lakki Marwat, D.I Khan (11,361 Kanal & 11 Marla)
The highway land along with all constructions and improvements thereon
- **Indus Highway Project (N-55):** Peshawar, Kohat, Karak, Takht Nasrali, Naurang, Bannu, Parova (12,604 Kanal & 04 Marla)
The highway land along with all constructions and improvements thereon

The underlying Assets (“ The Assets”) [i.e. Makran Coastal Highway (N-10): Ormara; Makran Coastal Highway (N-10): Gawadar & Jiwani; Grand Trunk Road (N-5) Peshawar & Nowshera; Indus Highway Project (N-55): Peshawar, Kohat, Lachi, Banda, Daud Shah, Karak, Domair, Bannu, Norang, Lakki Marwat, D.I Khan; Indus Highway Project (N-55): Peshawar, Kohat, Karak, Takht Nasrali, Naurang, Bannu, Parova;] may be used separately / individually or jointly as a pool as per the requirements of GOP to be ascertained at the time of issuance of Sukuk. Accordingly, the proportionate share of undivided Asset(s)/pool of the Asset(s) will be Purchased.

At the time of reopening **additional** undivided share of **New Assets** may be purchased (individually or jointly) and added to the Sukuk Asset(s) from time to time by way of single or multiple reopening transactions, subject to the approval of Shariah Advisory Committee (SAC). **New Assets** will be of the same asset class.

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 Relevant Authority: A government institution or authority which has control over the Assets. For each Asset the Relevant Authority is as follows:

Asset	Relevant Authority
Makran Coastal Highway (Ormara) (N-10)	National Highway Authority (NHA)
Makran Coastal Highway (N-10): Gawadar & Jiwani	National Highway Authority (NHA)
Grand Trunk Road (N-5): Peshawar & Nowshera	National Highway Authority (NHA)
Indus Highway Project (N-55): Peshawar, Kohat, Lachi, Banda, Daud Shah, Karak, Domair, Bannu, Norang, Lakki Marwat, D.I Khan	National Highway Authority (NHA)
Indus Highway Project (N-55): Peshawar, Kohat, Karak, Takht Nasrali, Naurang, Bannu, Parova	National Highway Authority (NHA)

Title Agent: A government institution or authority which will hold the title of the Assets on behalf of the Investors under Title Agency Agreement. For each underlying asset the Title Agent would be as follows

Asset	Title Agent
Makran Coastal Highway (Ormara) (N-10)	National Highway Authority (NHA)
Makran Coastal Highway (N-10): Gawadar & Jiwani	National Highway Authority (NHA)
Grand Trunk Road (N-5): Peshawar & Nowshera	National Highway Authority (NHA)
Indus Highway Project (N-55): Peshawar, Kohat, Lachi, Banda, Daud Shah, Karak, Domair, Bannu, Norang, Lakki Marwat, D.I Khan	National Highway Authority (NHA)
Indus Highway Project (N-55): Peshawar, Kohat, Karak, Takht Nasrali, Naurang, Bannu, Parova	National Highway Authority (NHA)

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. In the Sukuk Subscription Agreement, the primary dealers (acting on behalf of the Sukuk Investors) would also give their explicit consent

to the Investment Agent to add/merge/comeingle New Assets and/or additional share in the existing asset(s) in the future, subsequent to the reopening of Sukuk, which may dilute/change their ownership share in their assets and create their share in the new/additional assets.

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 Relevant Authority (under whom the asset is in control) i.e. NHA 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 Relevant Authority (under whom the asset is in control) i.e. NHA. The Relevant Authority (under whom the asset is in control) i.e. NHA. will then execute a **Title Agency Agreement** in favour of the Investors to the effect that it is holding the registered title of the Assets as **Title Agent** on behalf of 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 Title Agency Agreement, the **Title Agent** i.e. NHA will delegate its duties and powers under the Title Agency to PDSCL, with the exception of holding the registered title to the 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. NHA 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 Ijarah Agreement(s) provide that it 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 Title Agency Agreement 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(s) (i.e. 'The Assets') is purchased by the Investors/Sukuk holders by way of issuance through this structure or in case of reopening the relevant Shariah structure (given below).

Transaction Structure for Reopening of GoP Domestic Ijarah Sukuk

This document is in continuation of the approved Shariah structure for the first issuance of the GOP Ijarah Sukuk.

Preamble

Subsequent to the issuance of first Ijarah Sukuk issue if the GOP is in need of additional funds and instead of issuance of a new Sukuk wishes to raise new funds by way of re-opening, then the State Bank of Pakistan will conduct an auction for reopening of the existing Sukuk Issue.

In the Islamic context the steps of reopening of existing Sukuk is similar as that of issuance of a completely new Sukuk i.e. at the time of reopening of Sukuk the transaction is concluded by purchasing additional share in the identified asset on Musha basis which is then given on rent/ Ijarah and a separate Ijarah Agreement is executed. However, since the underlying asset, maturity date, rental rate and rental payout frequency is kept same as the initial issue, therefore the new issue would be called re-opening of Sukuk instead of a new Sukuk issuance.

The transaction flow for the re-opening of Sukuk would be same as that of an approved structure of the fresh Issue which is re-defined briefly in the following few lines:

At the time of reopening of Sukuk, a fresh Purchase Agreement would be executed between PDSCL (on behalf of Investors) and GOP at an agreed purchase price for the purchase of a New Asset or additional share in the existing Asset. Subsequently PDSCL (on behalf of Investors) and GoP would enter into an Ijarah Agreement wherein the New Asset or additional share in the existing Asset would be leased to GoP for a fixed period which would be ending on the scheduled maturity date of the first issue. The other agreements as mentioned in the Shariah Structure of first issue would also be executed simultaneously.

However, the structure of reopening of Sukuk might differ from the structure of the first issue in ways as elaborated below.

The distinguishing features of the re-opening structure are as follows:

- In the Sukuk Subscription Agreement for the reopening of Sukuk, the Primary dealers (acting on behalf of the new Sukuk Investors) would give explicit consent to the Investment Agent, that if required the Investment agent can add/merge/comingle the existing Sukuk assets with New assets and/or additional share in the existing asset(s) in the future (if required). The execution of Asset Comingling Declaration will result in proportionate change (addition//dilution) in the ownership of the underlying asset(s) of all sukuk holders.
- For the first rental period the rental amount of the reopened Sukuk in absolute terms would be the same as the first issue. However, for subsequent period, the Rental Rate for the reopened Sukuk would be same as that of the first issue. Similarly, the maturity of the re-opened Sukuk would also be same as the first issue.
- For the determination of the Bid Price the Investors at the time of re-opening would take into consideration the known Rental Rate (in terms of benchmark), the remaining tenor of the issue and the higher first rental amount. The Purchase Price (at which settlement will take place) would have the following three components which can be referred to individually or collectively for the reporting purpose:
 - i. Face value of Sukuk
 - ii. Market premium/ discount
 - iii. Price premium due to higher first rental

The component (iii) mentioned above is based on the rental rate determined in the fresh auction and/or start of last rental period; hence will be known to the investor.

The investors would bid in the auction on the price for re-opening of the Sukuk, which may be at premium or discount based on market conditions, considering component (i) and (ii) mentioned above. The component (iii) will be added to the Cut-off Bid Price (as per auction result) for determining purchase price at which settlement will take place.

- On completion of the bidding, the Purchase Agreement for the purchase of new asset/additional share in the existing asset between PDSCL (on behalf of the Investors) and GoP would be executed at purchase price.
- The Sukuk would be recorded in the books of accounts at Absolute Auction Price i.e. the purchase price without any adjustment. 'However, for reporting purpose the above identified 3 components of the Purchase Price may be recorded separately or collectively as required.
- In case the date of Ijarah Agreement lies in between the two rental payment dates of the original issue, then the first rental period would be of a period less than 6 months. In this case the first rental amount for the reopened sukuk would be communicated to the lessee in absolute terms. This rental amount would be equal in absolute terms with the corresponding 6-month rental of the first/ previous issue.
- The full amount of first rental of the re-opened sukuk would be booked as rental income by the Investors without adjustment.
- On the expiry of the first lease period subsequent to re-opening of Sukuk an Asset Comingling Declaration' shall be executed by PDSCL (as agent of investors) on the last day of first rental period to inform GoP about the combined proportionate share of investors in the underlying asset.
- Subsequently, a single rental notice referring to Comingled Assets shall be executed for subsequent lease periods.

Annexure – 1

Definition of Important terms in the Transaction Structure for Reopening of GoP Domestic Ijarah Sukuk:

Absolute Auction Price means the purchase price as defined below.

Auction means a sale event wherein potential buyers place competitive bids for Sukuk subscription.

Bid Price means the price per Rs. 100 at which an investor bid in the auction and does not include premium paid for receiving higher first rental. In conventional term this is called clean price.

Cut-off Bid Price means the lowest bid price up to which Government decides to accept bids.

Face Value (par value) means a nominal or PKR value of a Sukuk stated by the issuer paid on maturity

Purchase Price means price paid by the investor to purchase the GIS Assets and includes premium paid for receiving higher first rental.

Market Discount means when an asset, usually a Sukuk, trades below its intrinsic or face value.

Market Premium means when an asset, usually a Sukuk, trades above its intrinsic or face value.

Annexure-2

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 NHA	Please refer to pt. 4
4	Purchase Agreement	PDSCL and GoP (through MoF), acknowledged by NHA	Please refer to pt. 5
5	Title Agency Agreement	NHA, PDSCL and SBP-BSC	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	NHA, PDSCL, and SBP-BSC	