

Transaction Structure of GoP Domestic Ijarah Sukuk (M3)

The Assets

The Highway Land together with all structures, fixtures, construction and improvements thereon (M-3) (“Assets”) has been identified as the proposed Assets to be purchased by the investors for the purposes of issuance of the GoP Ijarah Sukuk (“Sukuk”). The M-3 (“Highway Land”) a 52km long strip of motorway is situated in Punjab and connects Faisalabad with M-2 near Pindi Bhattian. The valuation of the Assets will be carried out by at least two PBA approved independent valuers and the lower of the two valuations will be used to determine the purchase 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 **Sukuk Subscription Undertaking** to record the commitments of the Investors to subscribe to the Sukuk to be issued by PDSCL. Under the Sukuk Subscription Undertaking, the Investors will also appoint an Islamic financial institution (IFI) as their Agent (Investment Agent) for purchase of the Assets on their behalf.
3. Investment Agent and SBP’s Banking Services Corporation (SBP BSC) will execute an **Agency Agreement** whereby Investment Agent 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.
4. A **Sukuk Issuance Undertaking** will be executed by PDSCL and GOP in favor of the Investors, whereby PDSCL will undertake to issue the Sukuk to the Investors. Under the Sukuk Issuance Undertaking Investment Agent will also give its acceptance to appointment as agent of 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 Investment Agent) the purchase price of the purchased part 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.
5. Investment Agent will enter into a **Purchase Agreement** with GoP (acting through Ministry of Finance ‘MOF’) for purchase of an identified portion in the Assets (expressed in terms of Kilometers with identified starting and ending point/address) at an agreed price (“Purchase Price”) equivalent to the Sukuk issue amount (being the amount agreed under the Sukuk Subscription Undertaking). Paying Agent shall subsequently transfer the Purchase Price to the Seller’s (GoP) bank account. Each time there is an additional requirement of funds by the GoP, the Investment Agent (on behalf of the Investors) will purchase an additional identified portion (explicitly determined and expressed in terms of kilometers with identified starting and ending point/address) in the Assets and purchase of such portion will be duly effected

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through a separate Purchase Agreement. Such purchases by Investment Agent may continue until the whole of the Assets is purchased by the Investors.

6. Pursuant to Purchase Agreement, ownership of the purchased portion in the Assets will be transferred to Investors while the registered title and possession will be retained by PDSCL (on behalf of the Investors). PDSCL will execute a **Declaration of Trust** in favor of the Investors to the effect that PDSCL is holding the registered title in trust for the Investors. Once the ownership of the identified portion in the Assets is transferred to the Investors, a document should be executed between GOP (acting through MOF) and Investment Agent to prove that the possession has been transferred to Investors which will legally confirm that all the risks and rewards of the Assets have passed on to the Investors. Under the Declaration of Trust, SBP-BSC may also be made delegate for specified purposes.
7. Following purchase of the identified portion in the Assets, Investment Agent will enter into an **Ijarah Agreement** with GoP (as Lessee acting through MOF) wherein this purchased portion of the Assets will be leased to GoP for a fixed period (3 years), against Lease Rental payments in accordance with the terms & 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 this identified/specified portion of the Assets as its nominee. For each new sukuk issue, a separate Ijarah Agreement will be executed between Investment Agent and GoP for the lease of the relevant Assets intended to be leased under each tranche.

The Lease Rentals for the first Rental Period will comprise:

- a. an amount equal to the product of (i) the Rental Rate for such rental period, plus the Margin (as agreed in the auction for the Sukuk) , (ii) the number of days in such rental period divided by 365, and (iii) the face value of the Sukuk issue; plus an estimated amount (to be paid in advance) which in the opinion of the Investors/Investment Agent/Lessor will be sufficient for meeting expenses relating to the services to be performed by the Service Agent in respect of major maintenance and structural repair, procurement of takaful and payment of ownership taxes (the “Services”) during the first Rental Period by the Investment Agent.

The Lease Rentals for the subsequent Rental Periods will comprise:

- b. an amount equal to the product of (i) the Rental Rate for such rental period, plus the Margin (as agreed in the auction for the Sukuk) , (ii) the number of days in such rental period divided by 365, and (iii) the face value of the Sukuk issue; plus
- c. Supplementary Rental (to be paid in advance) which shall be equal to the amount of actual expenses for the Services incurred by the Investment Agent in the immediately preceding Rental Period. If the actual expenses for the current Rental Period go beyond the Supplementary Rental, the

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same shall be reimbursed by the Investors/Lessor to the Service Agent through deduction from the rentals received by the Investment Agent.

E.g On the basis of past data, the Lessor estimates that Rs 100 Mn may be incurred as expenses etc. for the 1st rental period. Therefore the rental for 1st period should be accordingly increased by a lump sum amount of Rs 100 Mn. If the actual expenses at the end of 1st period are Rs 110 Mn the additional Rs 10 Mn will be borne by the Investors/Lessor. This additional Rs. 10 Mn will be adjusted from the rental of the 1st period and the remaining rental amount will be distributed to the Investors/Lessor by the Investment Agent. The same rule shall apply to all the subsequent rental periods.

Similarly if the actual expenses are less than the Supplementary Rental the extra amount will be received by the Investors/Lessor.

The advance portion of the rental and supplementary rental to be paid in advance by the Lessee will be kept with the Paying Agent in a Shariah compliant account on behalf of the Investors/Lessor and will be used to reimburse the actual expenses incurred during the lease period.

8. A **Service Agency Agreement** will be executed between Investment Agent 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. However, in case the actual expenses for the Rental Period seem to exceed the Supplementary Rental allocated for that Rental Period by 50% or more the Service Agent would be required to obtain prior permission for incurring expenses beyond this threshold from the Lessor. In such cases the lessor shall have the right to abstain from incurring additional expenses over and above the 50% threshold in which case it shall be a Lease termination event. This would be properly incorporated in the Ijara Agreement.
9. GoP (acting through MOF) will undertake to purchase (pursuant to a **Purchase Undertaking**) the Assets at the Exercise Price at maturity or upon an Event of Default and Termination (including termination under point 8 herein). The Exercise Price shall be an amount equal to the initial Purchase Price plus any due and payable rental by the Lessee. Upon exercise of the Purchase Undertaking at maturity or upon Event of Default and Termination, a Sale and Purchase Agreement shall be executed between Investment Agent and GoP (acting through MOF) to evidence the purchase of Assets by GoP. Subsequently the legal title shall be transferred from PDSCL to GOP or any of its nominees.
10. GoP (acting through MOF) will undertake through a Cost Undertaking to pay all applicable fees & expenses and provide indemnities associated with the Sukuk issuance.
11. The Islamic Banking Department of State Bank of Pakistan shall be responsible for monitoring of: (i) proper execution & (ii) the legal documentation as per the

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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	Process Steps Reference
1	Sukuk Subscription Undertaking	Investors	Please refer point 2
2	Agency Agreement	Investment Agent and SBP-BSC	Please refer point 3
3	Sukuk Issuance Undertaking	PDSCL, Investment Agent, and GOP (acting through MOF)	Please refer point 4
4	Purchase Agreement	Investment Agent, GoP (acting through MOF)	Please refer point 5
5	Declaration of Trust	PDSCL and SBP-BSC	Please refer point 6
6	Ijara Agreement	Investment Agent, and GoP (acting through MOF)	Please refer point 7
7	Service Agency Agreement	Investment Agent, and GoP (acting through MOF)	Please refer point 8
8	Purchase Undertaking	GoP (acting through MOF)	Please refer point 9
9	Rules		
10	Cost Undertaking	GoP (acting through MOF)	Please refer point 10