

Transaction Structure of GoP Domestic Ijarah Sukuk
ASSETS OF THE TRADE DEVELOPMENT AUTHORITY OF PAKISTAN

Preamble

This structure is to facilitate the issuance of Government of Pakistan (“GoP”) domestic Ijarah Sukuk Program on the identified asset of **the Trade Development Authority of Pakistan (TDAP)** as the Underlying Asset (mentioned as ‘The Asset’). The documentation for this structure will include a Sukuk Issuance Undertaking, Purchase Agreement, Title Agency Agreement, Agency Agreement, Ijarah Agreement, Service Agency Agreement, Purchase Undertaking, Cost Undertaking and Rules.

The Asset

Identified underlying asset of **TDAP** together with identified, unencumbered and undisputed land of **TDAP** surrounding the identified asset. These lands would be identifiable by survey numbers (if applicable) and area, and would be identified as the proposed Asset (the “Asset”) to facilitate issuance of GoP Ijarah Sukuk (the “Sukuk”).

The underlying Asset (Sukuk Assets) on which this Sukuk would be issued include the Land, Building & Infrastructure of **TDAP** specifically located at:

Karachi Expo Centre value at PKR **58,570,494,300/-**

The underlying Asset (“Sukuk Asset”) may be used as per the requirements of GOP to be ascertained at the time of issuance of Sukuk. Accordingly, the proportionate share of undivided Asset(s) will be purchased.

At the time of reopening **additional** undivided share of **New Asset** 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 provisions of approved Shariah Structure. **New Asset** will be of the same asset class.

Valuation of the Asset has been carried out by two PBA approved independent valuers, and the lower of the two valuations has been accepted as the sale price of the Asset

The Relevant Authority: A government institution or authority namely **TDAP** which has control over the Asset.

Title Agent: A government institution or authority namely **TDAP** which will hold the title of the Asset on behalf of the Investors under Title Agency Agreement.

The Structure - Explanation

1. PSX will announce an Auction process (could be either through book building or normal auction at PSX) for the issuance of new Sukuk. The announcement of Auction process would be accompanied with a detailed term sheet for the information of investors. The term sheet will specifically mention the target size of the issue, the name of the issuer, eligible investors, tenor of the Sukuk (10 years), and the process of redemption at the end of the tenure (i.e the Purchase Undertaking by GOP). Along with the term sheet the approved Shariah Structure of the transaction would be attached for information of the investors.
2. Prior to the Auction date, it would be ensured that the registration process of the potential investors is completed. Along with the registration form the investors would provide an authorisation that in case their bids are accepted, then PDSCL acting on their behalf can execute transactional documents with relevant counter parties for the issuance of Sukuk.
3. On the Auction date, the potential investors would submit their bids in the Auction system. The bids would mention the Investment Value per Sukuk and proposed annual Ijarah Rental amount, the sum of these two should be equal to the Face Value per Sukuk. The bid would also include the total investment the potential investor wishes to make in the Sukuk.
4. The Auction screen shall be made available to Debt Management Office, Finance Division by the Pakistan Stock Exchange to evaluate the investors bids and decide the cutoff Investment Value per Sukuk and Ijarah Rental amount (the sum of which would be equal to the Face Value of the Sukuk).
5. Upon the successful completion of the Auction process the cutoff Investment Value per Sukuk and Ijarah Rental amount (The sum of which should be equal to the Face Value of the Sukuk) of the Sukuk would be announced and successful investors would be notified accordingly. The cutoff Investment Value per Sukuk and Ijarah Rental amount would be applicable on all the successful investors.
6. Subsequently PDSCL (as agent of Investors) and National Clearing Company of Pakistan Limited (NCCPL) will execute an **Agency Agreement** whereby PDSCL will appoint NCCPL 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 after withholding tax on rental. **NCCPL may enter into an arrangement with SBP for debiting and crediting of GoP account.**
7. 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., **TDAP** in favor of the Investors, whereby PDSCL will undertake to issue the Sukuk into book entry form to the Investors in their designated CDS accounts. Subsequent to the auction for the Sukuk, the Investors will provide their funds to SBP/ NCCPL enabling it to pay (on behalf of the PDSCL as Agent of Investors) the purchase price of the Asset 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 Asset and the accrued rental till that point in time. Under the Sukuk Issuance Undertaking, PDSCL will also give its acceptance to appointment as Investment Agent of Investors.

8. The PDSCL, acting on behalf of the Investors, will enter into a **Purchase Agreement** with **TDAP** and GoP (acting through MoF), for purchase of undivided ownership (expressed in terms of percentage) in identified portions of the Asset at an agreed price (“Purchase Price”) equivalent to the cutoff Investment Value. The Paying Agent shall subsequently transfer the Purchase Price to the seller’s (GoP) bank account.
9. Pursuant to the Purchase Agreement, ownership of the purchased portion of the Asset (the “Sukuk Asset”) will be transferred to Investors while the registered title will remain with the Relevant Authority (under whom the asset is in control) i.e **TDAP**. The Relevant Authority **TDAP** will then will execute a **Title Agency Agreement** in favour of the Investors to the effect that it is holding the registered title of the Asset as **Title Agent** on behalf of the Investors. Once the ownership of the Asset 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 Asset is handed over to PDSCL for and on behalf of the Investors which will legally confirm that all the risks and rewards of the Asset have passed on to the Investors.
10. Under the Title Agency Agreement, the Title Agent i.e. **TDAP** will delegate its duties and powers under the Title Agency to PDSCL, with the exception of holding the registered title to the Asset.
11. Following the purchase of the Sukuk Asset 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 Asset will be leased to GoP for a fixed period (1 year or 12 months) against fixed Ijarah 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. **TDAP** to use, operate and maintain the proportionate share of Investors in the identified/specified Asset as its nominee.
12. The **Lease Rentals** would be fixed (for the whole tenure i.e. 10 years) as announced through the auction result. The Ijarah Agreement would 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.
13. 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 asset 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.

14. 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 Investment Value in the Sukuk Assets. 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 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.
15. GoP (acting through MoF) will execute a **Cost Undertaking** to pay all applicable fees and expenses and provide indemnities associated with the Sukuk issuance.
16. The Joint Financial Advisors (JFAs), Ministry of Finance and all concerned Stakeholders 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.

Transaction Structure for Reopening of GoP Domestic Ijarah Sukuk
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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 Pakistan Stock Exchange will conduct an auction for reopening of the existing Sukuk Issue.

In the Islamic context, the steps of reopening of existing Sukuk is similar to that of issuance of a completely new Sukuk i.e. at the time of reopening of Sukuk the transaction is concluded by purchasing undivided additional share in the identified asset which is then given on rent/ Ijarah and a separate Ijarah Agreement is executed. However, since the underlying asset, maturity date, rental amount 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 as mentioned therein.

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

- It must be ensured that at the time of reopening of the Sukuk, the remaining tenor of the Sukuk that is being reopened, is at least 1 year (or more than 1 year) from the reopening date.
- Prior to the reopening date, it would be ensured that the registration process of the potential new investors is completed. Along with the registration form the investors would provide an authorisation that in case their bids are accepted, then Pakistan Domestic Sukuk Company Limited (PDSCL) acting on their behalf can execute transactional documents with relevant counter parties for the issuance of Sukuk. The potential investors would also give their explicit consent to the Investment Agent, that if required, the Investment Agent can add/merge/comingle the existing Sukuk Asset with New Asset 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.

- The rental amount of the reopened Sukuk in absolute terms would be the same as 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 market rental yield, the remaining tenor of the issue and the rental amount to be received at the maturity of the sukuk. 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.
- 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 purchase price without any adjustment.
- Upon execution of Purchase Agreement an Asset Comingling Declaration shall be executed by PDSCL (as agent of investors) to inform GoP about the combined proportionate share of previous and new investors in the underlying asset.
- The full amount of rental of the re-opened sukuk would be booked as rental income by the Investors without adjustment.

Annexure – 1

Key Documentation

Sq. of Documents	Documents	Signatories
2	Agency Agreement	PDSCL and NCCPL
3	Sukuk Issuance Undertaking	PDSCL, GoP (through MoF) and TDAP
4	Purchase Agreement	PDSCL and GoP (through MoF), acknowledged by TDAP
5	Title Agency Agreement	TDAP and PDSCL
6	Ijarah Agreement	PDSCL and GoP (through MoF)
7	Service Agency Agreement	PDSCL and GoP (through MoF)
8	Purchase Undertaking	GoP (through MoF)
9	Cost Undertaking	GoP (through MoF)
10	Rules	PR and PDSCL