

Hybrid Sukuk (Ijarah cum Murabaha) of Short term (less than 1 year e.g. 3,6 etc months)

The following structure shall be used for short term Government of Pakistan Hybrid Sukuk for tenors of three (3) months and above only.

The Structure

1. SBP/PSX will announce an Auction process 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, composition of Asset pool, tenor of the Sukuk and the process of redemption at the end of the tenure. 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 Pakistan Domestic Sukuk Company Limited (PDSCL), acting as their agent ("Investment Agent") can utilize the Sukuk funds/proceeds for creation of Asset pool on their behalf and execute transactional documents with relevant counter parties for the issuance of Sukuk in line and accordance with the Bid submitted by the customer in the Auction system. The Investors shall also authorize an identified IFI to act as Transaction Agent for execution of Commodity Murabaha transaction on their behalf. Additionally, the Investors would also provide an authorisation that in case their bids are accepted then at the time of maturity of the Sukuk, GoP (acting through MoF) is authorised to act as their Agent to sell their ownership share in the Ijarah assets to the new Investors for the redemption of the Sukuk as per Arrangements for Redemption.
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 Profit 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 cut-off yield of the Sukuk and the total Face Value of the Sukuk to be issued. All bids below the cut-off yield shall be accepted. Based on all the accepted bids, the Weighted Average Yield of the Sukuk shall be calculated which shall subsequently be used for the determination of the underlying Sukuk Asset value and the Rental Amount.
5. Upon the successful completion of the Auction process the cutoff yield of the Sukuk, the Weighted Average Yield of the Sukuk and the total Value of the Sukuk to be issued would be announced and successful Investors would be notified accordingly.
6. PDSCL and National Clearing Company Pakistan Limited ("NCCPL")/SBP BSC will execute an Agency Agreement whereby PDSCL will appoint NCCPL/SBP BSC as its agent ("Paying Agent") to collect proceeds from the Investors, collect profit payments (Ijarah rentals and Murabaha Profit) and other payments due from GoP and distribute the same to the Investors, and act as reference agent and registrar for the Investors.

7. A Sukuk Issuance Undertaking will be executed by PDSCL, the Investment Agent, the GoP (acting through Ministry of Finance “MoF”) and the Relevant Authority for Ijarah leg (under whom the Ijarah Asset is in control) in favor of the Investors, whereby PDSCL will undertake to issue the Hybrid Sukuk (Ijarah cum Murabaha) to the Investors. Subsequent to the auction for the Sukuk, the Investors will provide their funds to Paying Agent enabling it to utilize the funds (on behalf of the Investment Agent acting as agent of Investors) for creation of Asset pool (comprising of the Ijarah and Murabaha receivables) for the purpose of issuance of Sukuk. Each Sukuk to be issued will represent an undivided share in the ownership in the Asset pool (including both the Ijarah Assets and Murabaha receivables). Under the Sukuk Issuance Undertaking, Investment Agent will also give its acceptance to appointment as agent of Investors. Furthermore, GoP will also give its acceptance to appointment as selling agent of Investors for the sale of their ownership share in the Ijarah assets at the time of redemption as per Arrangements for Redemption.
8. The composition of Asset pool shall be such that at least 55% of the Sukuk issuance proceeds (Cutoff Investment Value of the Sukuk) shall be utilized for the Ijarah transaction while the remaining 45% shall be utilised for Commodity Murabaha transaction(s). Both transactions would need to be executed on the same day and it should be ensured that during the tenure of the Sukuk, at all times, the percentage of tangible assets (Ijarah Assets) in the Asset pool should not be below 33% after accounting for Murabaha price including Profit. The process of Sukuk issuance would be completed upon conclusion of all the steps of Ijarah and Commodity Murabaha transaction.
9. Redemption of the Sukuk at maturity shall be the sum of values/amounts determined as per points 14 and 21.

Structure of Murabaha Transaction

10. The Transaction Agent (on behalf of Sukuk Holders) shall then utilise not more than 45% of the Sukuk proceeds (Cutoff Investment Value of the Sukuk) to purchase a specific quantity of commodity in accordance with the SAC approved process. It must be ensured that transaction size of any Commodity Murabaha shall not exceed the cumulative unencumbered/unsold commodity available. The same shall also be reflected in the relevant e-certificates mentioning ownership details of commodity.
11. Once the required commodity is purchased by the Transaction Agent, it would also be evidenced through the e-certificate issued in favour of the Transaction Agent. It must be ensured that the Transaction Agent retains the ownership of the commodity purchased for a reasonable time before entering into a Murabaha transaction with MoF. The Transaction Agent shall then sell the ownership in the commodity to the MoF on cost plus profit basis against deferred payment through execution of **Murabaha Sale Contract**. Subsequent to the execution of the sale contract the commodity would be transferred in the name of MoF, which shall be retained by MoF for a reasonable time before selling on spot.
12. The Murabaha price would be fixed for the whole tenure of the Sukuk and would be the sum of:
 - a. The Murabaha Cost price
 - b. Murabaha Profit (e.g. PKR 1,000,000)

13. Upon sale to the MoF, the commodity should reflect ownership of MoF (in MoF or its appointed agent's account) along with all the details. MoF (in accordance with the existing approval of SAC) shall then sell the commodity to any party other than the original supplier on spot payment terms. This payment obligation would be set off against the payment obligation created in first leg of the transaction.
14. The Murabaha Price shall be payable in full at maturity or upon an Event of Default / Termination.

Structure of Ijarah Transaction

15. The Investment Agent, acting on behalf of the Investors, will enter into a Purchase Agreement with Relevant Authority and GoP (acting through MoF), for purchase of undivided ownership (expressed in terms of percentage) in identified portion of the Asset (as defined in Appendix-A) at an agreed price ("Purchase Price") equivalent to at least 55% of the Cutoff Investment Value of the Sukuk. The relevant annexure of the Purchase Agreement shall specify the percentage ownership in the Asset allocated to the respective successful Investors together with the purchase price payable by each Investor category based on the accepted bids received through the auction process. The Paying Agent shall subsequently transfer the relevant purchase consideration amounts to the GoP's designated bank account in accordance with the settlement details determined pursuant to the Auction.
16. Pursuant to the Purchase Agreement, ownership of the purchased portion of the Asset (the "Ijarah Asset") will be transferred to Investors while the registered title will remain with the Relevant Authority (under whom the asset is in control or its nominee/delegate). The Relevant Authority will then 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 Investment Agent and GoP, acting through MoF (as Seller)), will be executed to prove that the possession of the Asset is handed over to Investment Agent 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.
17. Under the Title Agency Agreement, the Title Agent will delegate its duties and powers under the Title Agency to PDSCL, with the exception of holding the registered title to the Asset.
18. Following the purchase of the Sukuk Asset and obtaining possession through the above mechanism, the Investment Agent, 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 (i.e. short term for e.g 3 or 6 etc months) against **fixed absolute Ijarah Rental payment ("Lease Rental") payable at the end of Sukuk tenor** 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 to use, operate and maintain the proportionate share of Investors in the identified/specified Asset as its nominee.
19. The Lease Rentals would be fixed (for the whole tenure i.e. 3 months or 6 etc months) and would be calculated using the Weighted Average Yield of the Sukuk determined on the basis of the Auction

results. 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.

20. A Service Agency Agreement will be executed between Investment Agent (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 Ijarah asset during the term of the Ijarah 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.
21. GoP (acting through MoF) will execute **Arrangements for Redemption** of the Sukuk at maturity as per the following mechanism. GoP (acting through MoF) would act as undisclosed agent of the Sukuk holders to sell their ownership share in the Ijarah assets to new Sukuk Investors through auction of new Sukuk. In case all of the Ijarah Assets are not sold to the new Investors or new Sukuk Auctions could not be conducted or the bids received by the GoP are rejected, GoP shall purchase the Ijarah Assets, or the remaining portion thereof, as the case may be, at a price which shall be equal to the value (at the time of initial issuance) of the unsold Ijarah assets plus any accrued but unpaid rental. The GoP shall also be liable to pay all rental amounts as per the Ijarah Agreement at maturity.
22. GoP (acting through MoF) will execute a Cost Undertaking to pay all applicable fees and expenses and provide indemnities associated with the Sukuk issuance.
23. 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.

Appendix-A

Identified underlying asset of **the Pakistan Airport Authority (PAA)** together with identified, unencumbered and undisputed land of **Pakistan Airport Authority (PAA)** 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 Hybrid Sukuk (the "Sukuk").

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

	Assets Details	Valuation Amount
1	Jinnah International Airport Karachi (PAA)	712,751,730,100.00

