

**Transaction Structure of GoP Domestic Ijarah Sukuk
(Asset of National Highway Authority)**

Preamble

This structure is to facilitate the issuance of Government of Pakistan (“GoP”) domestic Ijarah Sukuk Program on the identified asset of National Highway Authority 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 National Highway Authority (“NHA”) together with identified, unencumbered and undisputed land of NHA 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 National Highway Authority specifically located at

- **Makran Coastal Highway (N-10):** Ormara (27,905 Kanal & 18 Marla)
The highway land along with all constructions and improvements thereon
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- **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 total value of the asset is equal to PKR 326,658,660,450/-

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 which has control over the Asset. 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 |

Title Agent: A government institution or authority which will hold the title of the Asset 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. 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 (3 or 5 year), the Ijarah Rental Rate mechanism of the Sukuk (either Fixed or Variable) 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 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 to add/merge/comingle New Asset 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 asset and create their share in the new/additional asset.

3. On the Auction date, the potential investors would submit their bids in the Auction system. The bids would mention the Total Investment Value in the Sukuk and proposed Ijarah Rental Rate/ Spread. In case of Fixed Rate Sukuk the potential investors would bid for the specific percentage for the Ijarah Rental. However, in case of Variable Rate Sukuk the potential investors would bid on the Spread (either negative or positive) over and above the benchmark rate i.e. 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
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 Ijarah Rental Rate/ Spread of the Sukuk and the total Value of the Sukuk to be issued.
5. Upon the successful completion of the Auction process the cutoff Ijarah Rental Rate/ Spread of the Sukuk and the total Value of the Sukuk to be issued would be announced and successful investors would be notified accordingly. The cutoff Ijarah Rental Rate/ Spread shall 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., 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 Paying Agent 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. 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 NHA 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 Sukuk issue amount. 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 NHA. The Relevant Authority NHA 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. NHA 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 Sukuk Asset will be leased to GoP for a fixed period (3-5 years) divided in rental periods of six months (each being a "Rental Period") against Ijarah rental payments ("Ijarah 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 Asset as its nominee.

12. The **Ijarah 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 Spread 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 Ijarah 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.

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 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.

14. GoP (acting through MoF) will execute a **Purchase Undertaking** in favour of the PDSCL to purchase the Sukuk Asset at the Exercise Price at maturity or upon an Event of Default and Termination. The Exercise Price shall be an amount equal to the initial Purchase Price for the Sukuk Asset plus any other amount due and payable by the GoP (excluding any accrued and payable rental by the Lessee on such date). 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 an 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 Asset 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.

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) of GoP shall be responsible for i) proper execution and ii) the legal documentation as per the approved Shariah/Transaction Structure to ensure Shariah compliance and seamless management throughout the tenor of the Sukuk and at the time of the maturity of the Sukuk.

17. 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 Asset') 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
(Asset of National Highway Authority)

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 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 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/comeingle 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
- 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 occurs between the two rental payment dates of the original issue, the first rental period of the reopened sukuk would be a period which would be less than the rental period of the original issue. 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 rental period 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 rental 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 Asset shall be executed for subsequent rental 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 bids 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 and paid on maturity

Purchase Price means the price paid by the investor to purchase the GIS/Sukuk Asset 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 |
|-------------------------|----------------------------|--------------------------------------------------|
| 2 | Agency Agreement | PDSCL and NCCPL |
| 3 | Sukuk Issuance Undertaking | PDSCL, GoP (through MoF) and NHA |
| 4 | Purchase Agreement | PDSCL and GoP (through MoF), acknowledged by NHA |
| 5 | Title Agency Agreement | NHA 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 | NHA and PDSCL, |