



IFN SEMINAR
6 SEPT 2012
COLOMBO



Facility key summary terms

- **Facility Amount**: US\$ 175 Million
- **Facility Type** : Structured on Shari'ah principles
- **Tenor**: 4 years with amortization starting month 7
- **Currency** : Multi Currency Facility (US\$ and AED)
- **Security**: Perfected assignment of receivables from certain key routes and other suitable credit enhancement
- **Pricing** : Benchmarked to other international borrowings by the Government of SriLanka
- **Financiers**: Mashreq Bank, Abu Dhabi Islamic Bank, Al Hilal Bank, Noor Islamic Bank, United Bank Ltd.
- **Obligor's & Financiers' legal counsel**: Clyde & Co and Clifford Chance respectively

Key Drivers

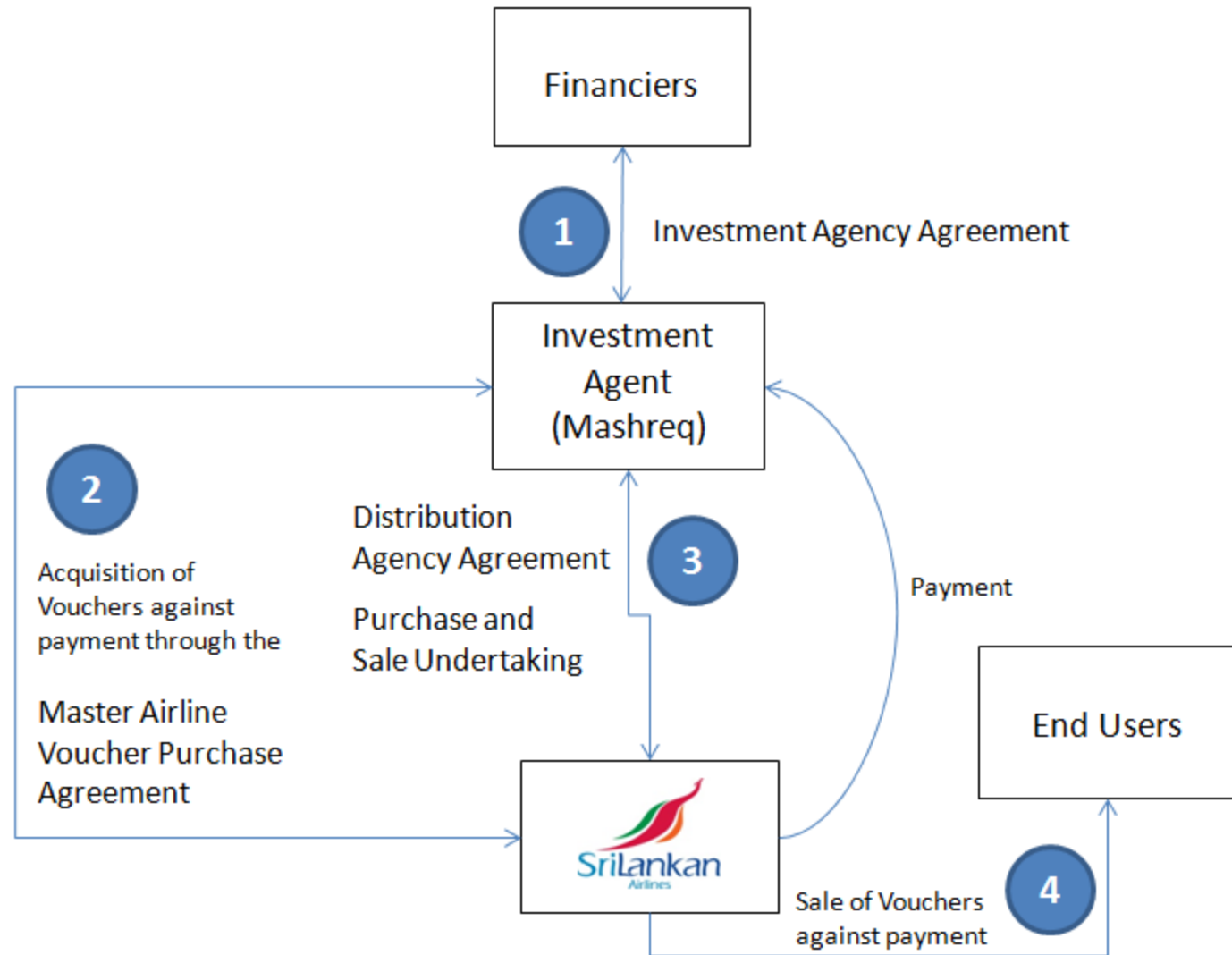
- SriLankan was embarking on a long term business plan which required significant funding for capital expenditure and short-term funding.
- Committed funding was available from main shareholder but staggered over a 5 year period. To implement the business plan bridging finance was required, SriLankan had to evaluate FCY borrowings on a term basis.
- Adequate security coverage had to be provided in order to strike a bankable deal.
- To tap into pockets of liquidity available with Islamic banks in the Middle East, a financing structure along Shari'ah principles was agreed upon.

Transaction Structure

■ **Stage 1:** Financiers appoint Mashreq as their Investment Agent (IA) and transfer their investments.

■ **Stage 2:** The IA acquires the rights (vouchers for seats) from SAL (as per its offer) on one designated route (UK routes) for the entire tenor of the Facility. In exchange, the IA transfers the facility proceeds to SAL as a payment for the vouchers.

■ **Stage 3 & 4:** IA appoints SAL as Distribution Agent to sell the flying rights (vouchers) and collect payments on its behalf. SAL will undertake to place all sales proceeds in designated accounts. SAL undertakes to be the sole operator of the flights on the designated routes.



Transaction highlights and main challenges

■ **Nature** : Hybrid structure involving a Sale process combined with a Wakala (Distribution Agency) process : this structure is unique as most airline financings are done through relatively simpler / more straight forward structures like Commodity Murabaha or Ijarah. Through the Sale and Agency, flying rights are sold (in exchange for the sale price) and then given to an agent to be marketed, with proceeds being used to service obligations (sale price and profit payment). Excess is paid as incentive and shortfall is claimed back

■ **Certainty of subject matter**: The main challenge of the structure is the uncertainty around the “voucher” which represents various flight, to various destination, involving various classes. To overcome this hurdle, although five routes have been assigned, only one has been identified against the vouchers.

■ **Inability to hold Agent responsible if there is no event of negligence**: The agent under Islamic Finance performs on best effort basis and therefore can't be held accountable for short falls. This was addressed via the independent purchase undertaking.

■ **Indemnities**: Similarly, the various indemnities (expenses, withholding tax, mandatory costs, etc.) had also to be tied in the voucher structure even though they are uncertain in nature. The solution adopted was to keep a few undistributed vouchers to be used if need be for the indemnities and to be gifted if no indemnities were triggered.

Transaction Documentation

Agreement	Features
Master Airline Ticket Voucher Purchase Agreement	Process of sale of all the vouchers through a notification to sell sent by Seller and Accepted by Buyer. The Vouchers cost is identified (US\$1,000 per voucher) and a Sale Agreement is entered into
Master Distribution Agreement	Process of distribution / Wakala agency. The Investment Agent now owner of the vouchers appoint the Agent and assign a certain quantity of vouchers to be sold during each specific period at a specific minimum price.
Investment Agency and Security Trustee Deed	Process of investment by the financiers and all related financing administration process
Account Charge and Assignment of BSP Receivables Agreement	Process of assignment of five destinations
Purchase Undertaking / Sale Undertaking	Mechanism used to buy back any shortfall of unsold vouchers



Key Success Factors

- **National Carrier of Sri Lanka seen by investors as a key strategic asset of the Government.**
- **Unique Growth Prospects - Sri Lanka / Sri Lankan**
- **Security Structure**
 - Assignment of ticket sales receivables for designated routes acknowledged by IATA,
 - Appropriate financial covenants to ensure that the SLA manages its obligation effectively,
 - Diversification of routes assigned mitigates volatility and seasonality and funds held off-shore

Key Learning Points

- **Benchmark for future borrowings**

- SLA first company to successfully raise an Islamic financing facility of such proportion from international markets. Opportunity for Aircraft Financing in the future
- Serves as a benchmark for other state-owned entities of the Government of Sri Lanka and the private sector
- The facility was successfully oversubscribed by 123% . Original commitments from banks were scaled down to accommodate US\$ 175 Million financing.

- **Complex legal structure and execution process slightly longer**

Questions & Answers

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