The President of the Islamic Republic of Pakistan

for and on behalf of

the Islamic Republic of Pakistan

U.S.$1,000,000,000 7.25 per cent Notes due 2019

U.S.$1,000,000,000 8.25 per cent Notes due 2024

Issue price of 2019 Notes: 100.0 per cent

Issue price of 2024 Notes: 100.0 per cent

The U.S.$1,000,000,000 7.25 per cent Notes due 2019 (the **2019 Notes**) and the U.S.$1,000,000,000 8.25 per cent Notes due 2024 (the **2024 Notes,** and together with the 2019 Notes, the **Notes**) are issued by The President of the Islamic Republic of Pakistan for and on behalf of the Islamic Republic of Pakistan (the **Issuer**) and are direct, unconditional and unsecured obligations. Interest on the 2019 Notes will be payable semi-annually in arrears on 15 October and 15 April in each year commencing on 15 October 2014. Interest on the 2019 Notes will accrue from and including 15 April 2014 and will be at a rate of 7.25 per cent per annum. The 2019 Notes will mature on 15 April 2019 (the **2019 Maturity Date**). Interest on the 2024 Notes will be payable semi-annually in arrears on 15 October and 15 April in each year commencing on 15 October 2014. Interest on the 2024 Notes will accrue from and including 15 April 2014 and will be at a rate of 8.25 per cent per annum. The 2024 Notes will mature on 15 April 2024 (the **2024 Maturity Date**). Payments on the Notes will be made in U.S. dollars without deduction for or on account of taxes of the Islamic Republic of Pakistan to the extent described under "*Terms and Conditions of the Notes – Taxation*".

Application has been made to admit the Notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Luxembourg Stock Exchange's Euro MTF market (the **Euro MTF Market**). The Euro MTF Market is not a regulated market pursuant to the provisions of Directive 2004/39/EC. This offering circular (the **Offering Circular**) constitutes a prospectus for the purposes of the Luxembourg law dated 10 July 2005 on prospectuses for securities, as amended.

Prospective investors should be aware that none of the statistical information in this Offering Circular has been independently verified. An investment in the Notes involves certain risks. For a discussion of these risks see *"Risk Factors"* beginning on page 6 of this Offering Circular.

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act of 1933, as amended (the *Securities Act*) and applicable state securities laws. Accordingly, the Notes are being offered, sold or delivered: (a) in the United States only to qualified institutional buyers (*QIBs*) (as defined in Rule 144A (*Rule 144A*) under the Securities Act) in reliance on, and in compliance with, Rule 144A (the *2019 Restricted Notes* and the *2024 Restricted Notes* respectively, and together the *Restricted Notes*); and (b) outside the United States in reliance on Regulation S (*Regulation S*) under the Securities Act (the *2019 Unrestricted Notes* and the *2024 Unrestricted Notes* respectively, and together the *Unrestricted Notes*). Each purchaser of the Notes will be deemed to have made the representations described in "*Plan of Distribution*" and "*Transfer Restrictions*" and is hereby notified that the offer and sale of Notes to it, if in the United States, is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A. In addition, until 40 days after the commencement of the offering, an offer or sale of any of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if the offer or sale is made otherwise than in accordance with Rule 144A. The Notes are not transferable except in accordance with the restrictions described under "*Plan of Distribution*" and "*Transfer Restrictions*".

The Notes will be offered and sold in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. Each of the 2019 Unrestricted Notes and the 2024 Unrestricted Notes will initially be represented by interests in a global unrestricted certificate in registered form (the **2019 Unrestricted Global Certificate** and the **2024 Unrestricted Global Certificate** respectively, and together, the **Unrestricted Global Certificates**), without interest coupons, which will be deposited with a common depositary for, and registered in the name of a nominee of, Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**) on the Closing Date. Beneficial interests in the Unrestricted Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear or Clearstream, Luxembourg. Each of the 2019 Restricted Notes and the 2024 Restricted Notes will initially be represented by a global restricted certificate in registered form (the **2019 Restricted Global Certificate** and the **2024 Restricted Global Certificate** respectively, and together, the **Restricted Global Certificates** and, together with the Unrestricted Global Certificates, the **Global Certificates**), without interest coupons, which will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company (**DTC**) on 15 April 2014 or such later date as may be agreed (the **Closing Date**) by the Issuer and the Managers (as defined under "*Plan of Distribution*"). Beneficial interests in the Restricted Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. See "*Clearing and Settlement Arrangements*". Individual definitive note certificates in registered form (**Individual Certificates**) will only be available in certain limited circumstances as described herein. **It is expected that delivery of the Global Certificates will be made in immediately available funds on the Closing Date (i.e. the fifth Business Day following the date of pricing of the Notes (such settlement cycle being herein referred to as T+5)).**

Managers

Barclays **BofA Merrill Lynch** **Citi** **Deutsche Bank**

The date of this Offering Circular is 9 April 2014.

The Issuer accepts responsibility for the information contained in this Offering Circular. The Issuer, having made all reasonable enquiries, confirms that this Offering Circular contains or incorporates all information which is material in the context of the Notes, that the information contained or incorporated in this Offering Circular is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make this Offering Circular or any of such information or the expression of any such opinions or intentions misleading.

No person is or has been authorised to give any information or to make any representation other than those contained in this Offering Circular in connection with the offering of the Notes and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer or any of the Managers. Neither the delivery of this Offering Circular nor any sale made hereunder shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Issuer since the date hereof. Neither this Offering Circular nor any other information supplied in connection with the issue of the Notes constitute an offer of, or an invitation by, or on behalf of, the Issuer or any of the Managers to subscribe for, or purchase, any of the Notes in any jurisdiction in which such offer or invitation is unlawful. Neither this Offering Circular nor any other information supplied in connection with the issue of the Notes constitute an offer, and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful.

The Managers have not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers or any of them as to the accuracy or completeness of the information contained in this Offering Circular or any other information provided by the Issuer in connection with the Notes or their distribution. None of the Managers accept any liability in relation to the information contained in this Offering Circular or any other information provided by the Issuer in connection with the Notes.

Neither this Offering Circular nor any other information supplied in connection with the Notes is intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer or the Managers that any recipient of this Offering Circular or any other information supplied in connection with the Notes should purchase any of the Notes. Each investor contemplating purchasing Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Offering Circular or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Notes and be familiar with the financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

For a description of certain restrictions on the offering and sale of the Notes and on distribution of this Offering Circular, see *"Plan of Distribution"* below.

The Notes are not being offered or sold and may not be offered, sold or transferred directly or indirectly in Pakistan, to residents in Pakistan or to, or for the account or benefit of, such persons.

The Islamic Republic of Pakistan is a foreign sovereign state. Consequently it may be difficult for investors to realise judgments of courts in England or their own jurisdiction against Pakistan in the courts of Pakistan. See *"Enforcement of Foreign Judgments in Pakistan" and "Risk Factors – Enforcement of foreign judgements in Pakistan".*

The issue of the Notes by The President of the Islamic Republic of Pakistan for and on behalf of the Islamic Republic of Pakistan is in accordance with Article 173(3) of the Constitution of the Islamic Republic of Pakistan which states "All contracts made in the exercise of the executive authority of the Federation or of a Province shall be expressed to be made in the name of the President or, as the case may be, the Governor of the Province".

In connection with the issue and distribution of the Notes, the Managers (or any person acting on their behalf) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Managers (or persons acting on behalf of the Managers) will undertake stabilisation action. Any stabilisation action or over-allotment may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment shall be conducted in accordance with all applicable laws and rules.

The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the U.S., nor have the foregoing authorities reviewed or passed upon the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offence.

This Offering Circular is being distributed in the United States to a limited number of QIBs for informational use solely in connection with the consideration of the purchase of certain Notes issued by the Issuer. Its use for any other purpose in the United States is not authorised. It may not be distributed in the United States or any of its contents disclosed to anyone in the United States other than the prospective investors to whom it is originally submitted.

Each purchaser or holder of interests in the Notes will be deemed, by its acceptance or purchase of any such Notes, to have made certain representations and agreements as set out in *"Plan of Distribution*" and "*Transfer Restrictions*".

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT, ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

PRESENTATION OF FINANCIAL INFORMATION

Certain amounts included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Unless otherwise specified or the context requires, references to **dollars**, **U.S. dollars** and **U.S.$** are to United States dollars and references to **Rupees** and **Rs**. are to the lawful currency of the Islamic Republic of Pakistan. Historic amounts translated into Rupees or U.S. dollars have been translated at historic rates of exchange. Such translation should not be construed as a representation that the amounts in question have been, could have been or could be converted into U.S. dollars at that or any other rate. The spot mid-rate between the Rupee and the U.S.$ on 28 March 2014 as quoted by the State Bank of Pakistan (**SBP**) was Rupees 98.0637 to U.S.$1.00. References to **billions** are to thousands of millions. References to **SDR** are to the Special Drawing Right, a unit of account having the meaning ascribed to it from time to time by the Rules and Regulations of the International Monetary Fund (**IMF**). References to any individual period as **2012-13** and so on are references to a fiscal year commencing on 1 July in one year and ending on 30 June in the subsequent year.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is a foreign sovereign nation, and a substantial portion of the assets of the Issuer are located outside the United States and the United Kingdom. As a result, it may not be possible for investors to effect service of process, within the United States and/or the United Kingdom, upon the Issuer or to enforce against it, in the United States courts or courts located in the United Kingdom, judgments obtained in United States courts or courts located in the United Kingdom, respectively, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state or territory within the United States.

ENFORCEMENT OF FOREIGN JUDGMENTS IN PAKISTAN

In Pakistan, statutory recognition is given to foreign judgments under section 13 of the Pakistan Code of Civil Procedure 1908 (the **Code**). This provides that a foreign judgment shall be conclusive as to any matter thereby directly adjudicated upon except (i) where it has not been pronounced by a court of competent jurisdiction, (ii) where it has not been given on the merits of the case, (iii) where it appears on the face of the proceedings to be founded on an incorrect view of international law or a refusal to recognise the law of Pakistan in cases where such law is applicable, (iv) where the proceedings in which the judgment was obtained were opposed to natural justice, (v) where it has been obtained by fraud, or (vi) where it sustains a claim founded on a breach of any law in force in Pakistan.

Section 44A of the Code provides that where a foreign judgment has been rendered by a court in any country or territory outside Pakistan which the Government has, by notification, declared to be a reciprocating territory, it may be enforced in Pakistan as if the judgment has been rendered by the relevant court in Pakistan. The High Court of Justice in England is a court in a reciprocating territory for the purposes of section 44A and, accordingly, a money judgment of that court would, subject to the exceptions contained in section 13 of the Code, be enforceable as if the judgment were the judgment of a district court in Pakistan. Accordingly, upon obtaining a foreign judgment, three possible courses are open to the holder:

(a) obtaining execution of the judgment by proceedings under section 44A, where these provisions are applicable, as they are in the case of a judgment of the High Court of Justice in England, for which the limitation period for initiating proceedings in Pakistan is three years from the date of the English judgment;

(b) filing a suit in Pakistan on the basis of the foreign judgment treating it as the cause of action, for which the limitation period is six years from the date of the foreign judgment; and

(c) filing a suit in Pakistan on the original cause of action, for which the limitation period is three years from when the cause of action arises.

In the case of proceedings described in paragraph (c) above, where the Pakistani court will have the power to assess the damages, it is possible that a Pakistani court will not award damages on the same basis as a foreign court, especially if it viewed the award of such damages as being contrary to Pakistani public policy.

Section 82 of the Code requires a decree against the Government to specify a period within which it is to be satisfied. If it remains unsatisfied at the expiry of such period, the Court issuing such decree is required to issue a report for the Orders of the Provincial Government within which such Court is situated. Execution proceedings can only be initiated against the Government three months after the date of such report.

PRESENTATION OF STATISTICAL AND OTHER INFORMATION

References to **Pakistan** are to the Islamic Republic of Pakistan and references to the **Government** are to the Government of Pakistan. References to the **Economic Survey 2012-13** herein are to the Economic Survey 2012-13 published on 11 June 2013 by the Government of Pakistan, Finance Division, Economic Advisor's Wing, Islamabad. The **Economic Survey**, which is published each year a few days before the presentation of the Federal Budget and presents a view on the national economy based on provisional data for the first three quarters of the fiscal year, is followed by the publication of its **Statistical Supplement**, in which the data series are provisionally updated for the whole fiscal year. It should be noted that certain historic data set out herein may be subject to minor amendments as a result of more accurate and updated information becoming available. References to the **Labour Force Survey 2012-13** herein are to the labour force survey published in November 2013 by the Government of Pakistan, Statistics Division, Pakistan Bureau of Statistics, Islamabad. The Labour Force Survey 2012-13 presents information on labour force characteristics that have been collected from a representative sample of 35,067 households to produce gender disaggregated national and provincial level estimates with an urban/rural breakdown.

Prospective investors in the Notes should be aware that none of the statistics in this Offering Circular have been independently verified.

A portion of Pakistan's economy is comprised of an informal, or shadow, economy. The informal economy is not recorded and is only partially taxed, resulting in not only lack of revenue for the Government but also ineffective regulation, unreliability of statistical information (including the understatement of GDP and the contributions to GDP of various sectors) and inability to monitor a large portion of the economy. Although the Government is attempting to address the informal economy by streamlining certain regulations, particularly tax laws, there can be no assurances that such reforms will adequately address the issues and bring the informal economy into the formal sector.

Although a range of governmental ministries produce statistics on Pakistan and its economy in accordance with international standards, there may be inconsistencies in the compilation of data and methodologies. The statistical information in this Offering Circular has been derived from a number of different identified sources and is based on the latest official information currently available from the stated source. Several statistics are provisional and are noted as such where presented. The development of statistical information relating to Pakistan is, however, an ongoing process, and revised figures and estimates are produced on a continuous basis. All statistical information provided in this Offering Circular may differ from that produced by other sources for a variety of reasons, including the use of different assumptions, methodology, definitions and cut-off times.

Prospective investors in the Notes should be aware that figures relating to Pakistan's economy and many other aggregate figures cited in this Offering Circular are subject to revision. Furthermore, standards of accuracy of statistical data may vary from ministry to ministry or from period to period due to the application of different methodologies. In this Offering Circular, data is presented as provided by the relevant ministry to which the data is attributed, and no attempt has been made to reconcile such data to the data compiled by other ministries or by other organisations, such as the IMF. Pakistan produces data in accordance with the IMF's General Data Dissemination System, although the IMF standard may not always be consistently applied.

Pakistan has also provided information on certain matters pertaining to documentation that belongs to independent third parties. In some of these circumstances, Pakistan has relied on reported information in presenting such matters but is unable to independently verify such information.

FORWARD-LOOKING STATEMENTS

Some of the statements contained in this Offering Circular, including those under *"Summary – The Islamic Republic of Pakistan"*, *"The Islamic Republic of Pakistan"* and *"Overview of Pakistan's Economy"*, are forward-looking. These statements are not historic facts, but are based on the Government's current plans, estimates, assumptions and projections. When used in this Offering Circular, the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "aims", "seeks", "may", "will", "should" and any similar expressions generally identify forward-looking statements. Future events may differ materially from those expressed or implied by such forward-looking statements. Therefore, prospective investors should not place undue reliance on them. Forward-looking statements speak only as of the date they are made, and the Issuer undertakes no obligation to update any of them in light of new information or future events. Forward-looking statements involve inherent risks. The Issuer cautions prospective investors that many factors could affect the future performance of the Pakistani economy. These factors include, but are not limited to:

External factors, such as:

- interest rates in financial markets outside Pakistan;
- the impact of changes in the credit rating of Pakistan;
- the impact of changes in the international prices of commodities;
- economic conditions in Pakistan's major export markets;
- the impact of possible future regional instability; and
- the decisions of international financial institutions and donor countries regarding the amount and terms of their financial assistance to Pakistan, as well as

Internal factors, such as:

- general economic, political, social, legal and/or business conditions in Pakistan;
- present and future exchange rates of the Pakistani currency;
- foreign currency reserves;
- natural disasters;
- the impact of possible future social unrest or the security situation;
- the level of domestic debt;
- domestic inflation;
- the ability of Pakistan to implement important economic reforms including its privatisation programme;
- the levels of foreign direct and portfolio investment; and
- the levels of Pakistani domestic interest rates.

EXCHANGE RATE INFORMATION

Pakistan has had a market-based unitary exchange rate system since May 1999. Under this unitary exchange rate system, the floating inter-bank rate applies to all foreign exchange receipts and payments both in the public and private sectors. See *"Balance of Payments and Foreign Trade – Exchange Rates".*

The following table sets forth the average and period end exchange rates for the periods presented, expressed in Rupees per U.S. dollar, not adjusted for inflation, as published by the SBP. The Federal Reserve Bank of New York does not report a noon buying rate for Rupees.

Period	Average During Period Indicated	Period End
2008-09	78.65	81.46
2009-10	83.89	85.51
2010-11	85.56	85.97
2011-12	89.27	94.55
2012-13	96.85	99.66
July-Dec 2013	105.00	105.32
January 2014	105.48	105.48
February 2014	105.12	104.90
March 2014[1]	100.07	98.06

(1) As of 28 March 2014.

Source: State Bank of Pakistan

Currency conversions contained in this Offering Circular should not be construed as representations that Rupees have been, could have been, or could be converted into U.S. dollars at the indicated or any other exchange rate.

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SUMMARY

The following summary does not purport to be complete and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Offering Circular and related documents referred to herein. It does not contain all the information investors may consider important in making their investment decision. Therefore, investors should read this entire Offering Circular carefully, including, in particular, the section entitled "Risk Factors".

*References herein to a **Condition** are to the numbered condition corresponding thereto set out in the Terms and Conditions of the 2019 Notes or the 2024 Notes, as applicable.*

The Islamic Republic of Pakistan

General

Pakistan is a federal republic located in south-central Asia between India, China, Afghanistan, Iran and the Arabian Sea. Its population was approximately 182.5 million in 2012-13 and over 96 per cent of the population is Muslim. The capital of Pakistan is Islamabad. The national language is Urdu and English is the official language.

Pakistan has a federal parliamentary system with the President as the Head of State. The current Government was elected on 11 May 2013 following a democratic transition of government. The Pakistan Muslim League (Nawaz) (**PML-N**) formed the current Government and Mr. Mamnoon Hussain is currently President and Constitutional Head of the State and the Government is headed by the Prime Minister, Nawaz Sharif.

Pakistan's economy is the twenty-seventh largest in the world in terms of purchasing power parity and the forty-fourth largest in terms of GDP, according to best estimates from publicly available sources. Pakistan is a rapidly developing country and is one of the "Next Eleven" countries that have the potential to become significant world economies in the next 25 years. Pakistan's economy is semi-industrialised, with centres of growth along the Indus River, Karachi and major urban centres in the Punjab. It ranks as the fifteenth largest trader of goods in the world and the world's sixth largest trader of services, according to best estimates from publicly available sources. It has three principal sectors: services (57.7 per cent of GDP 2012-13), industrial (20.9 per cent of GDP 2012-13) and agriculture (21.4 per cent of GDP 2012-13). Major industries include textiles, chemicals, food processing, agriculture, fertilizer, cement, dairy and rugs.

Pakistan's currency is the Rupee and its fiscal year is 1 July to 30 June.

Despite one of the most serious economic crises in Pakistan's recent history, a measure of macroeconomic stability has been achieved in recent years. Nominal gross domestic product (**GDP**) was approximately Rupees 22,909 billion (approximately U.S.$238.7 billion) in 2012-13 and GDP growth was 3.6 per cent in 2012-13, 4.4 per cent in 2011-12 and 3.7 per cent in 2010-11. The slowdown in GDP growth from 4.4 per cent in 2011-12 to 3.6 per cent in 2012-13 was principally due to severe energy shortages in Pakistan, as well as the disruptions to law and order brought on by the Fight against Terrorism which included some destruction of physical infrastructure.

The following table sets out major economic indicators for the past five years.

	2008-09	2009-10	2010-11	2011-12	2012-13[(1)]
GDP at current market price (*Rupees million*)................................	13,199,707	14,866,996	18,284,869	20,090,862	22,909,079
GNI at current market price (*Rupees million*)................................	13,545,988	15,433,243	19,105,094	21,126,569	24,010,565
Population (*million*)............................	168.2	171.7	175.3	178.9	182.5

	2008-09	2009-10	2010-11	2011-12	2012-13[1]
Per capita income at factor cost (*Rupees*)...	76,635	86,268	105,395	114,256	124,459
Per capita income (*U.S.$*)	1,026	1,072	1,275	1,323	1,368
Exports (*U.S.$ million*)	19,121	19,673	25,356	24,696	24,795
Imports (*U.S.$ million*).......................	31,747	31,209	35,872	40,461	40,226
Balance of trade (*U.S.$ million*)..........	(12,626)	(11,536)	(10,516)	(15,765)	(15,431)
Workers' remittances (*U.S.$ million*) ..	7,811	8,906	11,201	13,186	13,922
Current account balance (*Rupees million*)	(9,261)	(3,946)	214	(4,658)	(2,496)
Current account balance (*as % of GDP*)...	(5.5)	(2.2)	0.1	(2.1)	(1.1)
Overall fiscal deficit (*as % of GDP*).....	5.2	6.3	6.6[2]	6.6[3]	8.0
GDP growth at factor cost (*%*)...........	0.4	2.6	3.7	4.4	3.6
Inflation (*%*).......................................	17.0	10.1	13.7	11.0	7.4
Total investment at market price (*as % of GDP*)...	17.6	15.8	14.1	14.9	14.2
Real GDP at factor cost (*Rupees million*)	8,579,987	8,801,394	9,123,771	9,521,683	9,863,234
Private consumption expenditure at current prices (*Rupees million*)...........	10,455,752	11,851,316	14,839,587	16,584,789	18,567,229
National savings (*as % of GDP*)	12.0	13.6	14.2	12.8	13.5

(1) Provisional pending National Assembly approval in May 2014 of Pakistan's economic data for 2012-13.
(2) Includes payment of arrears of electricity subsidies.
(3) Excludes a one-off payment of Rupees 391 billion on account of debt consolidation.

Source: Ministry of Finance, except for 'Exports' and 'Imports' for which the source is the State Bank of Pakistan

Economy

Under its new Government, elected in May 2013, Pakistan is currently undergoing a significant process of economic liberalisation which includes privatisation of state-owned enterprises (**SOEs**) and is aimed at attracting foreign investment and decreasing the budget deficit. Pakistan's economy has historically suffered from decades of internal political disputes, a fast growing population and mixed levels of foreign investment. Its foreign exchange reserves are bolstered by steady worker remittances, offset by a significant current account deficit – driven by a widening trade gap as import growth outstrips export expansion – which also negatively affects its GDP.

The Government's existing finance programme with the IMF effectively institutionalises the Government's economic policy objectives. Pursuant to its financing arrangements with the IMF, Pakistan is subject to extensive quarterly economic review by IMF officials for consideration by the executive board of the IMF.

The Government's broad economic programme has been supplemented by a series of wide-ranging structural reform measures, which are needed to enhance economic incentives and improve resource allocation, as well as to remove impediments to private sector development. The Government believes that Pakistan's economic problems are structural in nature and the objectives of sustaining high growth, low inflation and external payment viability cannot be achieved without removing certain structural barriers. The Government's major structural economic reforms include tax reform, privatisation, trade reform to facilitate further privatisation, reform of the Pakistan Water and Power Development Authority (**WAPDA**) and financial sector reform. See "– *Structural Economic Reforms*" below.

Economic Policy Objectives

Achieve Macroeconomic Stability. The Government's economic policy objectives seek to achieve macroeconomic stability and foster sustainable and more equitable growth by means of structural improvements in the productive sectors of Pakistan's economy, involving a broad range of policy actions across sectors.

Following the election of the Government in May 2013 and its implementation of its long-term development programme, known as Vision 2025, significant initial gains in restoring macroeconomic stability have been made. Principal economic developments since the Government was elected include the following:

- *Fiscal Deficit.* The fiscal deficit for the first six months of 2013-14 represented 2.1 per cent of GDP, compared to 2.6 per cent of GDP in the first six months of 2012-13. The Government's fiscal deficit target for 2013-14 is 6.3 per cent of GDP, based on its policy of increased tax collections and tax reform measures. The Government has plans to lower the deficit to approximately 3.5 per cent of GDP by 2016-17 by phasing out electricity subsidies, improving revenue collections and other measures described below. The Government will continue to seek to eliminate and close tax exemptions and loopholes created through Statutory Regulation Orders (**SROs**) implemented by the predecessor government. The Government intends to introduce legislation that permanently prohibits the practice of issuing SROs by the end of December 2015;

- *GDP Growth*. GDP growth is forecast at 4.4 per cent for 2013-14 and 5.5 per cent for 2014-15, respectively. Pakistan's industrial sector has seen strong growth as electricity supply constraints eased on industrial production as a result of the Government's measures to tackle the energy crisis in Pakistan.

- *Inflation*. Inflation is projected to remain at approximately 8 per cent in 2013-14 and continue at this level in 2014-15 as a result of the Government's stable macroeconomic policies and monetary policy. Recent and essential electricity tariff adjustments in October 2013, as well as food price increases, resulted in increased inflationary pressure.

- *Balance of Payments.* The SBP is undertaking corrective action to boost reserves through higher base interest rates, purchases in the foreign exchange market and greater exchange rate flexibility. The Government has taken measures to increase foreign exchange inflows through borrowing on global markets, embarking on a comprehensive privatisation programme and accelerating the disbursement of loans and grants. As a result, Pakistan's balance of payments situation has improved since the Government took office, although its foreign exchange reserves are still too low. Foreign exchange reserves decreased to U.S.$11.0 billion at the end of 2012-13 from U.S.$15.3 billion at the end of 2011-12 and U.S.$18.2 in 2010-11 principally as a result of substantial repayment of IMF loans; and

- *Debt*. Pakistan's external debt is expected to decline to approximately 19 per cent of GDP in the medium term, subject to significant exchange rate depreciation, a decline in remittances and/or a rise in oil prices. Public debt is also expected to decline over the medium-term.

Revival of Economic Growth. The Pakistan economy experienced low GDP growth rates from 2008-09 to 2010-11, principally due to short supplies of energy, poor law and order and the 2010 and 2011 floods. The global economic crisis of 2008 also negatively impacted growth in Pakistan's economy. Real GDP growth averaged 2.9 per cent from 2008-9 to 2012-13 and, during the first quarter of 2014, GDP growth averaged 5 per cent growth, compared to 2.9 per cent in the first quarter of 2012-13. Pakistan's GDP growth environment continues to be affected domestically by the intensification of the Fight against Terrorism and the generally volatile security situation. GDP growth is also affected by increasing oil price rises.

The Government has taken measures to improve the GDP growth trajectory, primarily by reform of the energy sector and other supply constraints, which has already generated growth in the industrial sector. See *"– Energy in Pakistan"*.

The Government also implemented structural reforms aimed at reinvigorating the economy, increased growth, the maintenance of price stability, job opportunities for youth, the development of infrastructure projects and increased exports and tax collection, as well as reducing both the fiscal and current account deficits. See "− *Structural Economic Reforms*"

Poverty Reduction. The Fiscal Responsibility and Debt Limitation Act 2005 provides that expenditures on social and poverty related spending should be not less than 4.5 per cent of GDP in any year. During 2012-13, Rupees 1,911 billion, or 8.3 per cent of GDP, was spent under the Poverty Reduction Strategy Paper (**PRSP II**) to steer Pakistan's economic growth back to the range of 5-7 per cent a year by stimulating growth in the manufacturing sector, thus creating additional employment opportunities, improving income distribution and harnessing Pakistan's economic competitiveness through economic liberalisation, deregulation and transparent privatisation. PRSP II is funded directly from the Government of Pakistan's budget.

The Government's social safety net programme includes an income support programme (known as **BISP**) which was launched in July 2008 with the objective of cushioning the negative effects of slow economic growth, the fuel, food price and financial crisis and the effect of high inflation on the poor, particularly women, through the provision of a cash grant of Rupees 1,200 (approximately U.S.$12) per month to eligible families. Currently BISP is helping around five million poor households across Pakistan through monthly cash grants, stipends for school enrolments, vocational training and a range of complementary initiatives.

The Government is also working on various microfinance initiatives, in collaboration with the SBP and multilateral institutions, to generate employment and combat poverty; under the *Waseela-e-Haq* initiative, to date Rupees 2.6 billion has been disbursed to 16,119 beneficiaries. Under other BISP initiatives, 57,000 individuals from BISP beneficiary families have been provided vocational and technical training, 4.1 million families have received three years life and health insurance for income earners and approximately 37,000 children have been able to attend school as their families have received extra income support.

The Government is currently undertaking a number of additional initiatives to support youth and alleviate poverty, including a youth business loan scheme, a skills development programme, a youth training programme, a microfinance scheme, an educational fee reimbursement fund for post-graduate students from less developed areas, as well as the provision of laptops to students in higher education.

Improved Governance. The Government gives a high priority to improving national governance. While initial actions focused on accountability, especially with respect to loan and tax defaulters, the Government has embarked on a series of reform measures the key elements of which include devolution and decentralisation of state power to the local level, downsizing/rightsizing of government offices, judicial and police reform and the introduction of transparency in economic decision-making processes.

The Offering

Issuer	The President of the Islamic Republic of Pakistan for and on behalf of the Islamic Republic of Pakistan.
Notes being issued	7.25 per cent Notes due 2019 in the aggregate principal amount of U.S.$1,000,000,000 and 8.25 per cent Notes due 2024 in the aggregate principal amount of U.S.$1,000,000,000.
Issue Price of 2019 Notes	100.0 per cent of the aggregate principal amount of the 2019 Notes.
Issue Price of 2024 Notes	100.0 per cent of the aggregate principal amount of the 2024 Notes.
Issue Date	15 April 2014.
Maturity and Redemption	The 2019 Notes will mature on 15 April 2019 and will be redeemed at par on that date. The 2024 Notes will mature on 15 April 2024 and will be redeemed at par on that date. The Notes are not redeemable prior to maturity.
Interest	The 2019 Notes will bear interest from and including 15 April 2014 to but excluding 15 April 2019 at the rate of 7.25 per cent per annum, payable semi-annually in arrears on 15 October and 15 April in each year commencing on 15 October 2014. The 2024 Notes will bear interest from and including 15 April 2014 to but excluding 15 April 2024 at the rate of 8.25 per cent per annum, payable semi-annually in arrears on 15 October and 15 April in each year commencing on 15 October 2014.
Status	The 2019 Notes will be direct, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and (subject as provided above) will rank *pari passu,* without any preference among themselves, with all other present and future unsecured and unsubordinated External Indebtedness (as defined in Condition 10.2) of the Issuer. The 2024 Notes will be direct, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and (subject as provided above) will rank *pari passu,* without any preference among themselves, with all other present and future unsecured and unsubordinated External Indebtedness (as defined in Condition 10.2) of the Issuer. The due and punctual payment of the Notes and the performance of the obligations of the Issuer with respect thereto are backed by the full faith and credit of the Issuer.

Negative Pledge and Cross Default	So long as any of the Notes of a series remains outstanding, the Issuer has undertaken that it will not secure any of its present or future Public External Indebtedness (as defined in Condition 4) without, at the same time or prior thereto, securing the Notes of such series equally and rateably therewith, except in certain limited circumstances as set out in Condition 4. Condition 10 provides that Noteholders who hold not less than 25 per cent in aggregate principal amount of the Notes of a series then outstanding may declare the Notes of such series to be immediately due and payable at their principal amount if, *inter alia,* the Issuer is in default in relation to any External Indebtedness or guarantee thereof in excess of U.S.$25,000,000, the Issuer declares a moratorium in respect of its External Indebtedness or the Issuer ceases to be a member of the IMF or ceases to be eligible to use the general resources of the IMF; all as more particularly described in Condition 10. A declaration of acceleration may be rescinded in certain circumstances by the adoption of an Extraordinary Resolution in accordance with the procedures in Condition 13 or of a written resolution of holders of not less than two-thirds in aggregate principal amount of the Notes of that series then outstanding.
Withholding tax	All payments by the Issuer under the Notes are to be made without withholding or deduction for or on account of Taxes (as defined in Condition 8), unless the withholding or deduction for taxes is required by law. In such circumstances, the Issuer will, save in certain circumstances provided in Condition 8, be required to pay additional amounts so that Noteholders will receive the full amount which otherwise would have been due and payable under the Notes; all as more particularly described in Condition 8.
Noteholder meetings	A summary of the provisions for convening meetings of Noteholders of each series of Notes to consider matters relating to their interests as such is set out in Condition 13.
Listing	Application has been made to admit the Notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market.
Form and Denomination	The Notes of each series will be issued in registered form, in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. Each of the 2019 Unrestricted Notes and the 2024 Unrestricted Notes will be represented by an Unrestricted Global Certificate and each of the 2019 Restricted Notes and the 2024 Restricted Notes will be represented by a Restricted Global Certificate, in each case without coupons. The Global Certificates will be exchangeable for Individual Certificates in the limited circumstances specified in the Global Certificates.
Initial Delivery of Notes	On or before the Closing Date, the Unrestricted Global Certificates will be deposited with Citibank Europe plc as common depositary for, and registered in the name of a nominee of, Euroclear and Clearstream, Luxembourg and the Restricted Global Certificates will be deposited with Citigroup Global Markets Deutschland AG, as custodian for, and registered in the name of a nominee of, DTC.

Rating	Upon issue, the 2019 Notes are expected to be assigned a rating of 'Caa1' by Moody's Investor Service Inc. (**Moody's**) and a rating of 'B-' by Standard & Poor's Ratings Services (**Standard & Poor's**) and the 2024 Notes are expected to be assigned a rating of 'Caa1' by Moody's and a rating of 'B-' by Standard & Poor's. A rating is not a recommendation to buy, sell or hold the Notes and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.
Transfer Restrictions	The Notes have not been registered under the Securities Act, and are subject to certain restrictions on transfers. See "*Transfer Restrictions*" and "*Plan of Distribution*".
Use of proceeds	The net proceeds from the sale of the Notes will be used for the Government's general budgetary purposes including, but not limited to, the refinancing, repurchase or retirement of indebtedness.
Managers	Barclays Bank PLC Citigroup Global Markets Limited Deutsche Bank AG, London Branch Merrill Lynch International
Fiscal Agent	Citibank, N.A., London Branch
Registrar	Citigroup Global Markets Deutschland AG
Further Issues	The Issuer may from time to time, without notice to or the consent of the registered holders of the Notes, issue additional securities that will form a single series with the Notes of the applicable series, provided that either (i) such additional securities do not have, for purposes of U.S. federal income taxation (regardless of whether any holders of such securities are subject to the U.S. federal income tax laws), a greater amount of original issue discount than the Notes of the applicable series as of the date of issuance of such additional securities; or (ii) such additional securities are issued in a "qualified reopening" for U.S. federal income tax purposes. These additional securities will have the same terms as to status, redemption or otherwise as the Notes of the applicable series and will rank equally with the Notes of the applicable series in all respects, except for the payment of interest accruing prior to the issue date of these additional securities or except for the first payment of interest following the issue date of these additional securities.
Governing Law	Each of the Agency Agreement (as defined in the Conditions) and the Notes, and any non-contractual obligations arising out of or in connection with either of the Agency Agreement or the Notes, are governed by, and will be construed in accordance with, English law, except for the authorisation and execution of the Notes and the authorisation and execution of the Agency Agreement which will be governed by the laws of Pakistan.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. These factors are contingencies which may or may not occur, and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding the Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.

Factors that may affect the Issuer's ability to fulfil its obligations under the Notes

The Government's inability to implement economic reforms may have an adverse effect on the performance of Pakistan's economy

Although the Government is pursuing an agenda of substantial reform following a period of slow growth, inflationary pressure and increasing public debt, there remain macroeconomic challenges to achieving sustained growth including: enhancing tax revenues, strengthening reserves and privatisation of SOEs.

The Government has undertaken initiatives to increase the number of tax payers and has issued over 75,000 of the proposed 100,000 notices to potential tax payers this financial year but there are no assurances that the tax receipt targets will be met, which may impact budgeted revenue receipts. For further information see "*Public Finance and Taxation – Revenue and Expenditure – Tax Collection*".

To strengthen reserves, the SBP is undertaking action to boost reserves through higher base interest rates, purchases in the foreign exchange market, and greater exchange rate flexibility. These measures are being complemented by Government initiatives to increase foreign exchange inflows through borrowing on global markets, increasing the number of privatisations and accelerating disbursement of existing official loans and grants. See "*Balance of Payments and Foreign Trade*" and "*Public Debt*".

The Government is committed to its privatisation policy, and has prepared an action plan for 31 key SOEs in the power, oil and gas, banking, insurance, infrastructure, telecoms, real estate and industrial sectors. The five-year privatisation plan will primarily use a combination of domestic and international capital market transactions or strategic sales for the divestment of SOEs to raise substantial revenues. Failure to achieve the targeted privatisations due to adverse conditions in the international and domestic markets could have a material impact on Pakistan's budget performance and put further pressure on the budget deficit. See "*Overview of Pakistan's Economy – Structural Economic Reforms"* for further information.

The Government's plans for growth are dependent on its ability to increase the capacity of the energy sector

The shortage of reliable electricity supply remains an impediment to Pakistan's economic growth and development. The Government launched its National Power Policy in 2013 to address the energy shortfall and to promote sustainable increases in the energy supply. Several initiatives have been implemented, including the restriction of consumer subsidies, the clearance of Rupees 480 billion of payment arrears, improving prosecution of electricity theft and the increase of base tariffs to reflect actual fuel prices, which has added 1,700 MW to the system since May 2013. See "*Overview of Pakistan's Economy – Energy in Pakistan*".

Hostilities, insurgencies, terrorist attacks, civil unrest and other acts of violence could adversely affect Pakistan's economy

After the events of 9/11, Pakistan assumed the role of a frontline state in the global Fight against Terrorism. The onset of war in Afghanistan disrupted Pakistan's normal trading activities, as the cost of trading increased substantially because of higher insurance costs. Consequently, economic growth slowed, demand for imports reduced, with a consequential decline in tax collection, and inflows of foreign investment fell. Pakistan's economy has remained under pressure as a result of the Fight against Terrorism which has cost more than 49,000 lives, has caused the erosion of the investment climate and has reduced economic activity in many parts of Pakistan. For further information see "*The Islamic Republic of Pakistan – Fight against Terrorism*" and "*The Islamic Republic of Pakistan – International Relations – Relations with Select Countries – Relations with India*".

In addition to the direct negative impact of violent activity on the economy, terrorist incidents and general terrorist activities could create an increased perception that investments in Pakistan involve a high degree of risk and could have an adverse impact on the economy.

Political instability, any change in Government and/or significant changes in Government policy may adversely affect economic conditions in Pakistan

Pakistan has experienced periods of political instability in the past, including the significant influence of the military in political affairs. Pakistan has had a military government for 33 of its 67 years of independence, and no democratic government was peacefully succeeded by another democratically elected government until the elections in May 2013. Political instability could adversely affect the performance of the Pakistani economy and could have a material adverse effect on the Issuer's ability to service and repay the Notes. For further information see "*The Islamic Republic of Pakistan – Government and Politics*".

Natural calamities could have a negative impact on the Pakistani economy

Pakistan has experienced natural calamities such as floods, earthquakes, landslides, droughts and severe heat waves in recent years, including severe flooding along the Indus River in 2010 and 2011. The flood resulted from unusually heavy monsoon rains in various areas of Pakistan. The floods directly affected about 20 million people. The affected regions suffered extensive damage to economic assets and infrastructure, and millions of people were displaced, resulting in an interruption to social service delivery, commerce and communications. The occurrence of natural disasters or severe climatic conditions, such as earthquakes or prolonged spells of abnormal rainfall or drought, could have an adverse impact on Pakistan's economy.

Failure to adequately address actual and perceived risks of corruption may adversely affect Pakistan's economy and ability to attract foreign direct investment

Although Pakistan has implemented and is pursuing major initiatives to prevent and fight corruption and money laundering, Pakistan is ranked 127 out of 177 in Transparency International's 2013 Corruption Perceptions Index. This is an improvement on its ranking in previous years - 139 out of 174 in 2012 and 134 out of 182 in 2011.

Pakistan has implemented various measures to prevent and fight corruption and money laundering since 1999. In particular, Pakistan created the National Accountability Bureau (**NAB**) in 2000 which is mandated to combat corruption and money laundering (using its powers of investigation and prosecution) and in 2007 the Financial Monitoring Unit (**FMU**) was established to coordinate the detection and investigation of financial crime with the other law enforcement agencies tasked with investigating money laundering. In addition, new legislation has been adopted to enhance the prosecuting powers of law enforcement agencies, including the Anti-Money Laundering Act 2010 to combat the financing of terrorism and criminalise money laundering. There have been a number of high-profile prosecutions, including that of former prime ministers, and convictions for corruption. See "*Overview of Pakistan's Economy – Principal Sectors of the Economy – Services Sector – Anti-Corruption and Anti-Money Laundering*".

Failure to address these issues, continued corruption in the public sector and any future allegations of or perceived risk of corruption in Pakistan could have an adverse effect on the economy and may have a negative effect on Pakistan's ability to attract foreign investment.

Enforcement of legal rights

The Pakistani legal system is a common law system which requires modernisation and law reform, particularly in civil and commercial fields. In circumstances where no precedents of the Pakistan courts are available, decided cases of other common law jurisdictions, primarily India and England and Wales, are generally recognised as persuasive authority in the Pakistan courts. Many of the judicial remedies for enforcement and protection of legal rights typically found in more developed jurisdictions may not be available in Pakistan unless adopted in future by the superior courts of Pakistan in reliance on such foreign precedents. Even after a judgment has been finally pronounced, execution of the relevant decree may give rise to additional litigation and objections to such execution.

Emerging markets such as Pakistan are subject to greater risks than more developed markets, and financial turmoil in the global markets could disrupt the economy

Emerging markets, such as Pakistan, are subject to increased political, economic and legal risks. Generally, investments in emerging markets are only suitable for sophisticated investors who fully appreciate, and are familiar with, the significance of the risks involved in investing in emerging markets. Investors should also note that emerging markets such as Pakistan are subject to rapid change and that the information set forth in this Offering Circular may become outdated relatively quickly. See "*Presentation of Financial, Statistical and Other Information – Considerations on accuracy and consistency of statistical information*". Moreover, financial turmoil in any emerging market country tends to adversely affect prices in the financial markets of all emerging market countries as investors move their money to more stable, developed markets. Thus, even if Pakistan's economy is stable, financial turmoil in the global financial markets could adversely affect the economy and the Issuer's ability to service and repay the Notes.

The Issuer's credit rating could be downgraded, impacting its access to foreign debt

Moody's current rating of the Government's bonds is Caa1 (negative outlook). Standard & Poor's long-term rating of the 2007 Government's bonds is B- (stable). However, despite improving macroeconomic indicators, including the level of foreign exchange reserves, any downgrade of the Government's bonds would likely affect the Government's ability to raise foreign debt, which could adversely affect the Pakistani economy.

Shariat Law Position on the Payment of Interest

Presently, there are no laws or regulations or binding judgments of any superior court in Pakistan which expressly bar a lender's right to receive interest, including interest on late payments, from a borrower under a debt obligation such as the Notes. The following constitutional and legal provisions and the interpretation thereof by the superior courts of Pakistan could, however, adversely affect such right:

(a) ***The Constitution***: Under the Constitution of Pakistan 1973 (the **Constitution**), Islam is the state religion and Article 38(f) of the Constitution provides that Pakistan, as one of its "*Principles of Policy*", shall eliminate *riba* as early as possible. The Constitution also requires all existing laws to be brought into conformity with the Injunctions of Islam and provides that no law can be enacted that is repugnant to the Injunctions of Islam (Article 227). However, the Constitution, while requiring the elimination of *riba*, does not define the term. The meaning of this term also cannot be found in any legislative enactment. As a result, there is some controversy over the exact meaning of the Islamic term *riba*. Some consider it as being analogous to interest while others equate it with usury.

    By the Revival of the Constitution Order 1985 a new Article 2A was incorporated into the Constitution whereby the principles and provisions set out in the Objectives Resolution (the **Resolution**) were made a substantive part of the Constitution. The Resolution was passed by Pakistan's first Constituent Assembly and sets out basic principles to guide the framing of a constitution. Certain references in the Resolution gave rise to an argument that the Injunctions of Islam provided a touchstone for testing the repugnancy of all laws and that by virtue of Article 2A of the Constitution, the Resolution now has a supra-constitutional position above the Constitution itself. Since 1985, the point has been discussed and considered by the superior courts of Pakistan on a number of occasions leading to a number of conflicting decisions. The position that Article 2A has no effect on other constitutional provisions can now be regarded as settled on the basis of a Supreme Court judgment. The Supreme Court has also held in another judgment that Article 2A is not available for declaring void sub-constitutional laws, on the basis of repugnancy to the Injunctions of Islam. Therefore, unless these Supreme Court judgments are reversed or unless legislative action is taken to similar effect, Article 2A of the Constitution does not provide any basis for rendering void an obligation for the payment of interest.

(b) ***The Enforcement of Shari'ah Act 1991*** (the **Shariat Act**): The Shariat Act provides that the Injunctions of Islam as laid down in the *Holy Quran* (the Holy Book of Muslims) and *Sunnah* (traditions of the Holy Prophet) shall be the supreme law of Pakistan. Pursuant to the Shariat Act, the Government has appointed a commission with terms of reference including, *inter alia*, the following:

- to recommend measures and steps, including suitable alternatives, by which the economic system enunciated by Islam could be established in Pakistan;
- to undertake the examination of any fiscal law or any banking or insurance law or practice and procedure to determine whether these are repugnant to the *Shari'ah* and to make recommendations to bring such laws, practices and procedures into conformity with the *Shari'ah*; and
- to oversee the process of elimination of riba from every sphere of economic activity in the shortest possible time and also to recommend such measures to the Government as would ensure the total elimination of *riba* from the economy.

Until such time as an alternative system is introduced, the Shariat Act protects financial obligations incurred and contracts made, *inter alia*, involving a foreign lender. However, such protection can be removed by an act of parliament or if the courts hold that such protection is unlawful because it is repugnant to the supreme law of the land, namely the Injunctions of Islam as laid down in the *Holy Quran* and *Sunnah*, as declared by the Shariat Act itself.

(c) ***The Federal Shariat Court***: The Federal Shariat Court is a constitutionally established body which has jurisdiction to determine whether any law or any provision of any law, including any custom or usage having the force of law, in Pakistan violates the principles of Islam, the official State religion.

In November 1991, the Federal Shariat Court ruled that a number of statutory provisions in Pakistan violated Islamic principles relating to *riba* and held them to be void on that basis and instructed the Government to conform these provisions to Islamic principles.

The ruling of the Federal Shariat Court was appealed to the Shariat Appellate Bench of the Supreme Court of Pakistan (the **Appellate Bench**). The Appellate Bench dismissed the appeal and upheld the decision of the Federal Shariat Court (the **Appellate Bench Judgment**). Against this Appellate Bench Judgment a Review Petition was filed, which was allowed by the Order dated 24 June 2002 (the **Review Order**). Pursuant to the Review Order, a differently constituted Appellate Bench set aside the judgment of the Federal Shariat Court and the Appellate Bench Judgment and remanded the case to the Federal Shariat Court for *de novo* determination of this issue after taking into consideration various aspects noted therein. The Federal Shariat Court began its *de novo* determination with a hearing on 21 October 2013 and the case is on-going at this time.

To summarise the position in Pakistan regarding the payment of interest:

- presently, the law in Pakistan does not prohibit the payment of interest pursuant to a contract to borrow money such as the Notes;

- an obligation to pay interest may be held to be unenforceable by the ordinary civil courts if:

    - the Supreme Court reverses itself on its findings in respect of Article 2A of the Constitution (subsection (a) above); or

    - the protection to financial obligations incurred and contracts made *inter alia* involving a foreign lender is removed (subsection (b) above); or

    - the Federal Shariat Court *de novo* determines the issue afresh but holds to the same effect as previously decided and the Shariat Appellate Bench of the Supreme Court substantially upholds the judgment of the Federal Shariat Court (subsection (c));

- any decision of a civil court declaring interest unenforceable will only operate between the parties to it;

- any such decision will not form a binding precedent until upheld by the provincial High Court to which such civil court is subordinate or the decision is delivered by such High Court itself, in which case the High Court's decision will be binding only on all civil courts subordinate to it;

- a single judge of a High Court is not bound by the decision of another single judge of the same High Court but is bound by a division bench (a bench of two judges) decision of that High Court. One division bench is not bound by the decision of another division bench but all judges of that High Court are bound by the full bench decisions (a bench of three or more judges) of that High Court. In the event that a single judge finds that he cannot agree with a previous decision of another single judge, then the matter must be referred to the Chief Justice of that High Court for the constitution of a larger bench to settle the issue (subject to the outcome of any appeal to the Supreme Court). A similar procedure applies where one division bench is in disagreement with another division bench;

- the decision of one High Court will not bind any other High Courts but will have persuasive value for High Courts and subordinate courts in other provinces and the Islamabad Capital Territory;

- any such decision will operate as a precedent binding on all courts in Pakistan only if the Supreme Court of Pakistan upholds such a decision and to the extent that it decides a question of law or is based upon or enunciates a principle of law; and

- any decision of any court in Pakistan (including the Appellate Bench or the Federal Shariat Court) in relation to the unenforceability of an obligation to pay interest will have no effect whatsoever on any obligation to pay the original sum borrowed or advanced.

The Government is, as a matter of policy, committed to eliminate *riba* and to promote Islamic banking in Pakistan, while keeping in view its linkages with the global economy and existing commitments to local and foreign investors. Despite the fact that the Supreme Court remanded the "*riba case"* to the Federal Shariat Court (see subsection (c) above), the Government took various measures in line with the guidelines and directions of the Supreme Court, including the introduction by the SBP of Islamic banking in Pakistan, in parallel with conventional banking. See "*Overview of Pakistan's Economy – Principal Sectors of the Economy – Services Sector – Financial Services – Islamic Banking*" for further information.

Risks related to the Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

The terms of the Notes may be modified, waived or substituted without the consent of all Noteholders

The Conditions of each series of Notes contain provisions for calling meetings of Noteholders of the applicable series to consider matters affecting their interests generally, including material changes to the terms of the Notes of the applicable series and rescission of acceleration. These provisions permit defined majorities voting at a meeting or executing written consents to bind all Noteholders of the applicable series including Noteholders of the applicable series who did not attend and vote at the relevant meeting and Noteholders of the applicable series who voted in a manner contrary to the majority.

The Notes may be subject to withholding taxes in circumstances where the Issuer is not obliged to make gross-up payments and this would result in holders receiving less interest than expected and could significantly adversely affect their return on the Notes.

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland). In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

On 24 March 2014, the European Council adopted an EU Council Directive amending and broadening the scope of the requirements described above. In particular, the changes expand the range of payments covered by the Directive to include certain additional types of income, and widen the range of recipients, payments to whom are covered by the Directive, to include certain other types of entity and legal arrangement, in particular with the view to identifying the beneficial owners of such payments. Member States are required to implement national legislation giving effect to these changes by 1 January 2016 (which national legislation must apply from 1 January 2017).

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent (as defined in the Conditions) nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the EU Savings Directive.

Law governing the terms of the Notes may change

The structure of the Note issue and the Conditions are based on English law and administrative practice in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular and any such change could adversely impact the value of any Notes affected by it.

Statements in this Offering Circular concerning the taxation of investors are of a general nature and are based upon current law and practice in the jurisdictions stated. Such law and practice is, in principle, subject to change, possibly with retrospective effect, and this could adversely affect investors.

In addition, any change in legislation or in practice in a relevant jurisdiction could adversely impact: (i) the ability of the Issuer to service the Notes; and (ii) the market value of the Notes.

Risks related to the market generally

Set out below is a brief description of the principal market risks associated with an investment in the Notes, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

No guarantee that listing will be approved

Application has been made to admit the Notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market. There is no guarantee that the application to the Luxembourg Stock Exchange will be approved.

There may be no active trading market for the Notes

There can be no assurance that a secondary market for the Notes will develop or, if a secondary market does develop, that it will provide the Noteholders with liquidity of investment or that it will continue for the life of the Notes. Therefore, investors may not be able to sell their Notes easily or at a price that will provide them with a yield comparable to similar interests that have a developed secondary market. The market value of the Notes may fluctuate and a lack of liquidity, in particular, can have a severe adverse effect on the market value of the Notes. Accordingly, the purchase of the Notes is suitable only for investors who can bear the risks associated with a lack of liquidity in the Notes and the financial and other risks associated with an investment in the Notes.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. dollars or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to U.S. dollars would decrease: (i) the Investor's Currency-equivalent yield on the Notes; (ii) the Investor's Currency-equivalent value of the principal payable on the Notes; and (iii) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in the Notes, as they bear a fixed rate of interest, involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments for it; (ii) the Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

As Pakistan is not a Sanctions Target, OFAC regulations do not prohibit U.S. persons from investing in, or otherwise engaging in business, with Pakistan. However, to the extent that Pakistan invests in, or otherwise engages in business with, Sanctions Targets, directly or indirectly, U.S. persons investing in Pakistan may incur the risk of indirect contact with Sanctions Targets. Non U.S. persons from jurisdictions with similar sanctions may similarly incur the risk of indirect contact with Sanctions Targets. See "*Balance of Payments and Foreign Trade – Exports and Imports*".

Enforcement of foreign judgements in Pakistan

In Pakistan, statutory recognition is given to foreign judgments under section 13 of the Pakistan Code of Civil Procedure 1908 (the **Code**). This provides that a foreign judgment shall be conclusive as to any matter thereby directly adjudicated upon except (i) where it has not been pronounced by a court of competent jurisdiction; (ii) where it has not been given on the merits of the case; (iii) where it appears on the face of the proceedings to be founded on an incorrect view of international law or a refusal to recognise the law of Pakistan in cases where such law is applicable; (iv) where the proceedings in which the judgment was obtained were opposed to natural justice; (v) where it has been obtained by fraud; or (vi) where it sustains a claim founded on a breach of any law in force in Pakistan.

Section 44A of the Code provides that where a foreign judgment has been rendered by a court in any country or territory outside Pakistan which the Government has, by notification, declared to be a reciprocating territory, it may be enforced in Pakistan as if the judgment has been rendered by the relevant court in Pakistan. The High Court of Justice in England is a court in a reciprocating territory for the purposes of section 44A and, accordingly, a money judgment of that court would, subject to the exceptions contained in section 13 of the Code, be enforceable as if the judgment were the judgment of a district court in Pakistan. Accordingly, upon obtaining a foreign judgment, three possible courses are open to the holder:

(a) obtaining execution of the judgment by proceedings under section 44A, where these provisions are applicable, as they are in the case of a judgment of the High Court of Justice in England, for which the limitation period for initiating proceedings in Pakistan is three years from the date of the English judgment;

(b) filing a suit in Pakistan on the basis of the foreign judgment treating it as the cause of action, for which the limitation period is six years from the date of the foreign judgment; and

(c) filing a suit in Pakistan on the original cause of action, for which the limitation period is three years from when the cause of action arises.

In the case of proceedings described in paragraph (c) above, where the Pakistan court will have the power to assess the damages, it is possible that a Pakistani court will not award damages on the same basis as a foreign court, especially if it viewed the award of such damages as being contrary to Pakistani public policy.

Section 82 of the Code requires a decree against the Government to specify a period within which it is to be satisfied. If it remains unsatisfied at the expiry of such period, the Court issuing such decree is required to issue a report for the Orders of the Provincial Government within which such Court is situated. Execution proceedings can only be initiated against the Government three months after the date of such report.

USE OF PROCEEDS

The net proceeds of the issue of the Notes, expected to amount to approximately U.S.$1,998,000,000, will be used for the Government's general budgetary purposes including, but not limited to, the refinancing, repurchase or retirement of indebtedness.

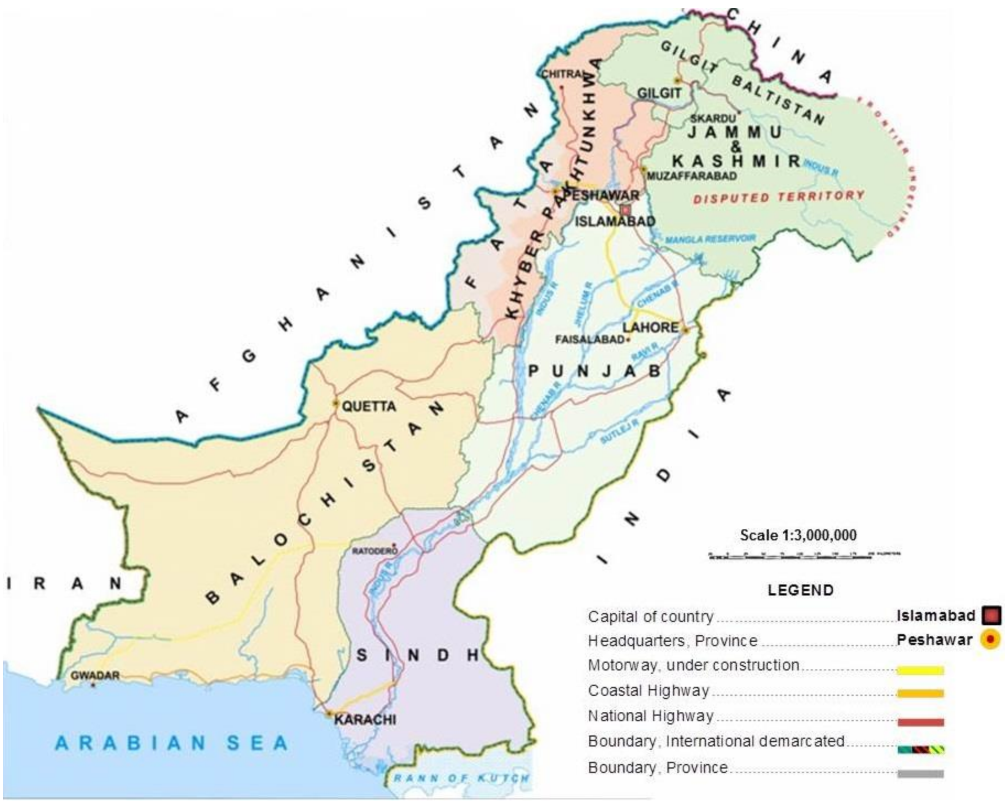
THE ISLAMIC REPUBLIC OF PAKISTAN

Location and Geography

Pakistan is a federal republic located in south-central Asia between India, China, Afghanistan, Iran and the Arabian Sea. Pakistan consists of (i) four provinces (the Punjab, Sindh, the Khyber Pakhtunkhwa (**KPK**) and Balochistan); (ii) the Islamabad Capital Territory; (iii) the Federally Administered Tribal Areas; and (iv) other territories. Pakistan's land area is approximately 796,095 square kilometres, more than twice the size of California.

The capital of Pakistan is Islamabad, which is a federal territory (the **Islamabad Capital Territory**) carved out of the province of Punjab. Karachi (the capital of Sindh) is the main financial, commercial and industrial centre in Pakistan. Karachi is linked by air, rail and road networks to all major cities of Pakistan, and is also home to Pakistan's main seaports, the Port of Karachi and Port Qasim. The other provincial capitals are Lahore (Punjab), Peshawar (KPK) and Quetta (Balochistan).

The northern region of Pakistan is famous for its high mountain ranges, such as the Himalayas and the Karakoram. KPK comprises both hilly areas and fertile valleys. Most of Punjab and Sindh is a plain formed by the Indus River and its tributaries. The Indus Valley is known for its extensive network of canals and rich agricultural land. Balochistan, in the southwest, is mainly an arid plateau rich in mineral deposits.



Population, Religion and Language

The total population of Pakistan was estimated at 182.5 million in 2012-13. Over 96 per cent of the population of Pakistan is Muslim. The national language is Urdu and the official language is English. Urdu is the most widely spoken and understood language throughout Pakistan. The main regional languages are Punjabi, Sindhi, Pashto and Balochi.

The total labour force of Pakistan was 59.74 million in 2012-13, of which 56.01 million were employed and 3.73 million (or 6.2 per cent) were unemployed. The proportion of the population living in rural areas has declined from approximately 82 per cent in 1951 (shortly after independence in 1947) to approximately 66 per cent in 2013.

In 2012-13 approximately 41 per cent of the population of Pakistan was in the age range of 0 to 14 years, 56 per cent was in the age range of 15 to 65 years and 3 per cent were over 65 years. The population of Pakistan has increased by 8.5 per cent from 168.18 million to 182.5 million between 2008-09 and 2012-13. The Government projects that by 2030 the population will increase to 242 million. This demographic transition provides an opportunity for raising economic growth and increasing prosperity, subject to Pakistan's ability to mobilise sufficient capital and use it efficiently with the rising share of working age population.

Government and Politics

Pakistan is currently the world's fifth largest democracy and the world's second largest Muslim democracy after Indonesia. It gained independence in August 1947 upon the partition of British-ruled India and originally comprised two predominately Muslim regions, West Pakistan and East Pakistan, separated by over 800 miles (1,280 km) of Indian territory.

The territory of the former princely state of Jammu and Kashmir remains disputed territory between India and Pakistan. At the time of partition in 1947, the reigning Hindu Maharaja was reluctant to accede to either India or Pakistan and later sought military assistance from India to maintain power in Kashmir. The Maharaja announced accession to India in October 1947 and allowed Indian troops into the state. The then government of Pakistan did not accept the accession on the basis that it was contrary to the underlying principles of the partition of the subcontinent. The matter was placed before the United Nations (**U.N.**) Security Council that resolved that the final disposition of the State of Jammu and Kashmir would be made in accordance with the will of the people expressed through a free and impartial plebiscite conducted under the auspices of the U.N. To this day, the U.N. Security Council resolutions have not been implemented and Jammu and Kashmir remains a disputed territory between India and Pakistan.

Current Pakistan Government. A general election to appoint members of the National Assembly, as well as the four provincial assemblies of Punjab, Sindh, Balochistan and KPK, was held on 11 May 2013. The PML-N, led by Nawaz Sharif, emerged as the single largest party and formed the current Government of Pakistan. Nawaz Sharif was elected prime minister by the National Assembly for the third time, taking oath on 7 June 2013, and Mamnoon Hussain assumed the presidential office on 9 September 2013.

The elections of 11 May 2013 provided the first democratic transition in Pakistan's history compared to the decade following the death of General Zia in 1988, during which neither of the democratically elected governments of Benazir Bhutto or Nawaz Sharif were allowed to complete their terms. See "*Form of Government – Legislature*" below.

The Government was elected in 2013 on a programme of:

- conducting local body elections;
- economic reform, including significant GDP and industrial growth, increased investment, increased tax collection, budget deficit reduction, increased foreign exchange reserves and increased home-building for low-income families;
- energy sector reform, including the generation of additional electricity through coal-fired power plants, investment in power plants and infrastructure and a reduction in transmission and distribution losses;
- agricultural and food security reform, including the acceleration of agricultural growth, the implementation of a national food security strategy and increased spending on non-pension social security as a percentage of GDP;
- educational reform, including increased expenditure as a percentage of GDP, increased school enrolment, increased literacy levels, increased science and computer laboratories in schools, the creation of district education authorities and the creation of an educational endowment fund for low income families;

- health reform, including increased expenditure as a percentage of GDP, the introduction of a comprehensive national medical insurance service, increased vaccinations, decreased child mortality rates, increased district hospitals with diagnostic facilities and specialists, provisions of mobile health units in remote areas and the creation of district health authorities;

- IT reform, including the promotion of Pakistan's software industry to generate increased annual exports;

- employment reforms, including an increase in the minimum wage and increased employment possibilities in both public and private sectors focused on IT and small and medium-sized enterprises; and

- overseas Pakistani reforms, focused on increasing annual remittances.

The 18th and 19th Amendments to the Constitution. On 19 April 2010, the 18th Amendment to the Constitution of Pakistan was enacted. The 18th Amendment reversed some of the changes brought about by former President Musharraf in that it (i) declared the Legal Framework Order 2002 (the **LFO**), issued by him in 2002 (which had revived the majority of the Constitution held in abeyance since his military coup in October 1999) to have been made without lawful authority; and (ii) repealed the 17th Amendment to the Constitution made in 2003 (primarily to limit the time former President Musharraf could hold office as both President and Chief of Army Staff and to validate all laws made and actions taken between his coup in October 1999 and December 2003).

Other major changes brought about by the 18th Amendment were:

- a declaration that the abrogation, subversion, suspension or holding in abeyance of the Constitution, or the attempt to do so, would constitute the crime of high treason, and was no longer capable of validation by any court;

- the insertion of a number of fundamental rights, including the right to a fair trial, freedom of information and education;

- the restriction of the power of the president to dissolve the National Assembly at his discretion;

- the broad transfer of powers from the president to the prime minister;

- the broad devolution of rights and powers from the Federation to the Provinces. The increased importance given to the Provinces is demonstrated by the NFC Award. See "*Public Finance and Taxation – Revenue and Expenditure – Allocation of Revenue Between the Federal Government and Provinces*";

- the establishment of a high court for the Islamabad Capital Territory;

- the insertion of a new sub-article (3) to Article 172 of the Constitution of Pakistan, which provides that mineral oil and natural gas within the Provinces or the territorial waters adjacent thereto shall vest jointly and equally in that Province and the Federal Government. As a consequence, all future petroleum concessions within a Province are now required to be granted jointly by the Federal Government and by the Provincial Governments. To date no law has been enacted in order to effect the provisions of this constitutional amendment; and

- the establishment of a judicial commission and parliamentary committee for the appointment of judges to the superior courts of Pakistan.

The 20th Amendment to the Constitution. In 2012, through the 20th Amendment to the Constitution, provisions for the appointment of an impartial chief election commissioner, an independent election commission of Pakistan and a neutral interim government tasked with overseeing general elections were constitutionally implemented.

Form of Government. Pakistan has a federal parliamentary system. The federal system consists of an executive, a legislative and a judicial branch.

- ***Executive***. Mr. Mamnoon Hussain is currently President and constitutional head of state of the Islamic Republic of Pakistan. The Government is headed by the Prime Minister, Nawaz Sharif, who is the Chief Executive of the Federation, assisted by his cabinet ministers who head various ministries, and by his advisors. Other offices and bodies having important roles in the federal structure include the Attorney General, the Auditor General, the Federal Land Commission, the Federal Public Service Commission, the Election Commission of Pakistan, the *Wafaqi Mohtasib* (ombudsman) and the various regulatory authorities including the Securities and Exchange Commission of Pakistan (**SECP**), the Public Procurement Regulatory Authority, the Pakistan Electronic Media Regulatory Authority, the Oil and Gas Regulatory Authority and the National Electric Power Regulatory Authority (**NEPRA**).

  The following table sets out the members of the current federal cabinet as of 19 March 2014 in addition to the current Prime Minister, Nawaz Sharif. All are members of PML-N:

FEDERAL MINISTERS

Name	**Portfolio**
Engr. Khurram Dastgir Khan	Commerce
Rana Tanveer Hussain	Defence Production
Mr. Muhammad Ishaq Dar	Finance, Revenue, Economic Affairs, Statistics and Privatisation
Mr. Ghulam Murtaza Khan Jatoi	Industries and Production
Mr. Pervaiz Rashid	Information, Broadcasting and National Heritage Additionally: Law, Justice and Human Rights
Chaudhry Nisar Ali Khan	Interior and Narcotics Control
Mr. Riaz Hussain Pirzada	Inter-Provincial Coordination
Mr. Muhammad Barjees Tahir	Kashmir Affairs and Gilgit-Baltistan
Mr. Sikandar Hayat Khan Bosan	National Food Security and Research
Pir Syed Sadaruddin Shah Rashidi	Overseas Pakistanis and Human Resource Development
Mr. Shahid Khaqan Abbasi	Petroleum and Natural Resources
Mr. Ahsan Iqbal	Planning and Development
Mr. Kamran Michael	Ports and Shipping
Khawaja Saad Rafique	Railways
Sardar Muhammad Yousaf	Religious Affairs and Inter-faith Harmony
Mr. Zahid Hamid	Science and Technology

Lt. General (Retd.) Abdul Qadir Baloch	States and Frontier Regions
Khawaja Muhammad Asif	Water and Power Additionally: Defence
Mr. Akram Khan Durrani	*Minister without portfolio*

MINISTERS OF STATE

Name	Portfolio
Mr. Muhammad Baligh Ur Rehman	Education, Trainings and Standards in Higher Education Additionally: Interior and Narcotics Control
Mr. Usman Ibrahim	Housing and Works
Mrs. Anusha Rahman Ahmad Khan	Information Technology and Telecommunication
Mrs. Saira Afzal Tarar	National Health Services, Regulations and Coordination
Sheikh Aftab Ahmed	Parliamentary Affairs
Mr. Jam Kamal Khan	Petroleum and Natural Resources
Mr. Abdul Hakeem Baloch	Railways
Pir Muhammad Amin Ul Hasnat Shah	Religious Affairs and Inter-faith Harmony
Mr. Abid Sher Ali	Water and Power
Molana Abdul Ghafoor Haideri	*Minister without portfolio*

ADVISERS TO THE PRIME MINISTER

Name	Portfolio
Mr. Sartaj Aziz	Adviser to the Prime Minister on National Security with the additional responsibility of Foreign Affairs with the status of Federal Minister
Mr. Ameer Buksh Bhutto	Adviser to the Prime Minister with the status of Federal Minister
Engr. Amir Muqam	Adviser to the Prime Minister with the status of Federal Minister

SPECIAL ASSISTANTS TO THE PRIME MINISTER

Name	Portfolio
Mr. Tariq Fatemi	Special Assistant to the Prime Minister on Foreign Affairs with the status of Minister of State
Dr. Musadik Malik	Special Assistant to the Prime Minister with the status of Minister of State
Kh. Zaheer Ahmed	Advocate High Court as Special Assistant to the Prime Minister with the status of Minister of State

Mr. Imtiaz Ahmed Shaikh	Special Assistant to the Prime Minister with the status of Minister of State
Mr. Miftah Ismail	Special Assistant to the Prime Minister / Chairman, Board of Investment
Capt. Shujaat Azim	Special Assistant to the Prime Minister on Aviation (on honorary basis)
Mr. Irfan Siddiqui	Special Assistant to the Prime Minister on National Affairs with the status of Federal Minister

- ***Legislature***. Pakistan has a bicameral Parliament comprising a National Assembly and a Senate. The National Assembly is elected for a term of five years, most recently in May 2013. Of the 342 seats in the National Assembly, 272 are directly elected according to popular vote, 60 are reserved for women and ten are reserved for non-Muslim minorities. The 70 reserved seats are allocated on the basis of proportional representation to parties that win more than 5 per cent of the directly elected seats.

  The Senate presently consists of 104 members of whom 14 are elected by members of each Provincial Assembly; eight are elected from the Federally Administered Tribal Areas; two on general seats; and one woman and one technocrat (including an *aalim*, a religious scholar) are elected from the federal capital; four women are elected by the members of each Provincial Assembly; and, four *ulema* (religious scholars) are elected by the members of each Provincial Assembly. From the last senate election, an additional four non-Muslims, one from each Province, were elected by the members of each Provincial Assembly, taking the total number to 104.

  The term of the Senate's members is six years. However, one-half of its members retire after every three years. A casual vacancy in the Senate - caused by resignation, death, incapacitation, disqualification or removal of a member - is filled through election by the respective electoral college and the member so elected holds office for the un-expired term of the member whose vacancy he has filled.

- ***Judiciary***. The Supreme Court of Pakistan hears appeals from the provincial high courts, the federal and provincial service tribunals, as well as the Islamabad High Court which has been recently established. The Supreme Court also has original jurisdiction and advisory jurisdiction in certain matters. Each Province has a separate court system. The provincial court systems consist of a provincial high court, civil and district courts to hear civil cases and magistrate courts and sessions courts to hear criminal cases. The provincial high courts hear both federal and provincial cases.

  The Federal Shariat Court, created in 1980 by constitutional amendment, has the jurisdiction to examine any law or provision of law and to decide whether it is repugnant to the principles of Islam. Decisions of the Federal Shariat Court may be appealed to the Supreme Court (Shariat Appellate Bench) and do not take effect until appeals to the Supreme Court have been exhausted. For further information see "*Risk Factors – Factors that may affect the Issuer's ability to fulfil its obligations under the Notes – Shariat Law Position on the Payment of Interest*".

  Special courts and tribunals have been established to deal with matters under certain statutes. Appeals from the final decisions of these courts are generally heard first by the high courts and then, subject to leave to appeal, by the Supreme Court. These special courts include the banking and labour courts and income tax and customs tribunals.

International Relations

International Organisations. Pakistan has diplomatic and trade relations with most nations of the world. Pakistan is a member of the U.N. (including as a non-permanent member of the U.N. Security Council in 2012-13), the Organisation of the Islamic Conference (the **OIC**), the Non-Aligned Movement, the Commonwealth of Nations (an organisation of former colonies of the British Empire), the World Trade Organisation (**WTO**), as well as the IMF, the World Bank, the Asian Development Bank (**ADB**) and the Islamic Development Bank (**IDB**).

Regionally, Pakistan is a member of the Economic Cooperation Organisation, an organisation that promotes economic and trade ties between Iran, Pakistan, Turkey and the Central Asian Republics. Pakistan is also a founding member of the South Asian Association for Regional Cooperation, which includes Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal and Sri Lanka, with China and Japan participating as observers. Pakistan is also seeking to upgrade its relationship with the Association of South East Asian Nations (**ASEAN**) to a full dialogue partnership. Pakistan is a member of ASEAN Regional Forum, the security related organ of ASEAN. Pakistan is also a member of the Developing-8 (**D8**), comprising Bangladesh, Egypt, Iran, Indonesia, Malaysia, Nigeria, Pakistan and Turkey. The D8 countries signed a preferential trade agreement on 14 May 2006.

Pakistan is a founding member of the Asia Cooperation Dialogue and became a member of the Asia Europe meeting in September 2006.

Pakistan ratified the South Asian Free Trade Area Agreement (**SAFTA**) in February 2006, which was applied with retrospective effect on 1 January 2006. The first tariff reductions under SAFTA were implemented on 1 July 2006.

Given Pakistan's growing prominent role in the region, the Shanghai Cooperation Organisation, comprised of China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan, extended observer status to Pakistan in July 2005.

The Group of 77 (**G-77**) was established on 15 June 1964 by seventy-seven developing countries, which included Pakistan, as signatories of the Joint Declaration of the Seventy-Seven Countries issued at the end of the first session of the U.N. Conference on Trade and Development (**UNCTAD**) in Geneva. G-77 is the largest coalition of developing countries in the U.N. and provides the means for the developing world to articulate and promote its collective economic interests and enhance its joint negotiating capacity on all major international economic issues in the U.N. Pakistan was the Chair of G-77 in 2004, 2006 and 2007.

Pakistan believes it is compliant with all applicable U.N. sanctions. See "– *Relations with Select Countries – Iran*" below and "*Energy in Pakistan – Iran-Pakistan Gas Pipeline Project*" and "*Balance of Payments and Foreign Trade – Exports and Imports*".

Peace Keeping. Pakistan is the largest contributor of troops to U.N. peacekeeping operations worldwide, with over 8,000 deployed troops. It has participated in many U.N. peacekeeping missions, as well as other international aid efforts. These have included providing emergency food relief to various African countries, as well as contributing troops to the U.N. peacekeeping operations in six different U.N. missions.

Relations with Select Countries. The following describes Pakistan's relationship with its key allies and trading partners:

- ***Relations with the United States.*** There has been a progressive transformation of Pakistan's relations with the U.S. over the past decade. Over this period, the bilateral relationship has improved substantially through a process of deepening and broadening of ties beyond the cooperation in counter-terrorism. The U.S. has shown interest in supporting Pakistan's economic development, educational reforms and measures to increase trade and investment links. The U.S. has provided substantial aid packages over the past decade for both economic and military assistance.

  The U.S. is Pakistan's largest trade partner, accounting for nearly 14 per cent of Pakistan's total exports in 2012-13. The U.S. is also one of the major foreign investors in Pakistan. A trade and investment framework agreement was signed between Pakistan and the U.S. in June 2003. Pakistan is seeking increased access to the U.S. market and commenced negotiations for a free trade agreement with the U.S. Negotiations on a bilateral investment treaty (**BIT**) began in 2004 and recommenced in November 2013. The U.S. has issued a new draft of the BIT which is currently being considered by Pakistan.

In December 2009, U.S. President Barack Obama announced a renewed Pakistan-U.S. partnership, which adopted a new USAID Country Assistance Strategy for Pakistan for the five year period 2010 to 2014. The goals of the strategy are to deepen the existing relationship with both the Government and people of Pakistan by aligning U.S. assistance more closely with Pakistan's development and investment priorities, to strengthen the Government's ability to effectively provide services to its citizens and end the appeal of extremist elements. Under this strategy, the Pakistan and U.S. governments are working together to develop a number of projects in the areas of economic growth, energy, agriculture, education and health to assist Pakistan in meeting its immediate and long-term development goals.

In March 2010, delegations led by Pakistan's then foreign minister and then U.S. Secretary of State met in Washington, D.C, to launch the Pakistan-U.S. Strategic Dialogue (the **Strategic Dialogue**), involving working groups that meet at regular intervals to provide input at the ministerial level. The talks focused on Pakistan's socio-economic and political development, including agriculture, communications and public diplomacy, defence and security, economic development and finance, energy and water and social issues. Strategic Dialogue talks did not take place in 2011-12 but were resumed when U.S. Secretary of State John Kerry visited Pakistan in August 2013. Since then high level governmental engagement has increased. During Prime Minister Sharif's official visit to Washington D.C. in September 2013, he held substantive talks with President Obama, Vice President Joe Biden and a number of senior U.S. Administration officials. The most recent ministerial meeting of the Strategic Dialogue was held on 27 January 2014.

In December 2010, the Pakistan and U.S. military concluded their four-month long cooperation in a flood relief programme as Pakistan shifted its focus from emergency humanitarian aid to a more sustained recovery and reconstruction following the 2010 floods. During the course of the relief operations, the U.S. contributed more than U.S.$500 million in monetary aid, delivered more than 12,000 metric tons (**Mt**) of relief supplies and rescued more than 40,000 people in the affected areas.

- ***Relations with China.*** Pakistan continues to enjoy close and stable relations with China. The two countries share a common interest in preserving the balance and stability of the region. The political and economic fundamentals of Pakistan-China relations remain sound, with bilateral trade exceeding U.S.$9 billion in 2012-13, and are reflected in frequent high-level exchanges between the two governments. Economic cooperation between the countries includes Chinese investments and financial assistance in port, railway, mining, coal and nuclear power projects, with a focus on the Xinjiang province bordering Pakistan.

  Pakistan and China entered into a free trade agreement in July 2007 - the China-Pakistan Free Trade Agreement - which entered into force on 10 October 2009.

  In July 2013, during Prime Minister Sharif's first official visit to China, the countries signed a memorandum of understanding on the China-Pakistan Economic Corridor, principally regarding the development of Gwadar Port (a warm-water, deep-sea port on the Arabian Sea at Gwadar, in the Pakistan province of Balochistan) and related infrastructure. The eventual aim of the China-Pakistan Economic Corridor is to enhance connectivity between Pakistan and China by building further rail, road, gas, oil pipelines and fibre optic links.

- ***Relations with India.*** Since independence from British colonial rule in 1947, Pakistan and India have gone to war three times, most recently in 1971. Relations with India remain tense over the disputed area of Jammu and Kashmir. The U.N. Security Council passed resolutions calling for a U.N. supervised plebiscite in Jammu and Kashmir which have not yet been implemented. See *"The Islamic Republic of Pakistan – Government and Politics"*.

  Tensions resurfaced following the attacks in Mumbai in November 2008. However, it was acknowledged by India that the attacks were not sponsored by Pakistan and confidence building measures have been taken by both countries since then. This includes a series of high-level meetings in early 2011 that led to the announcement of a series of measures to develop bilateral trade in a variety of sectors and the announcement of a proposed easing of restrictions on the issuance of visas by both countries. See "*Overview of Pakistan's Economy – Structural*

Reforms — Trade Reforms" below. Despite these improvements, a range of issues covering border disputes in Jammu and Kashmir, Siachen and Sir Creek, as well as water disputes, remain between India and Pakistan. Pakistan has stated that it is committed to resolving outstanding issues with India in a peaceful manner. In September 2013, Prime Minister Sharif promised to take action against *Lashkar-e-Taiba* (the South Asian terrorist organisation mainly operating from Pakistan) in relation to the Mumbai attacks, and in January 2014 Pakistan's anti-terrorism court began hearing the trial of seven men charged with involvement in the attacks.

As a result of the peace process and the dialogue between Pakistan and India, including a meeting in New York in August 2013, there has been significant improvement in relations between the two countries. Between 2011-12 and 2012-13, trade between Pakistan and India rose to more than U.S.$2 billion. In January 2014, Pakistan and India also agreed to keep the Wagha-Attari border (the main road crossing on the international border between the countries) permanently open for trade. Pakistan has offered non-discriminatory market access to India from February 2014, in return for access to the Indian market for specific Pakistani products. See "*Overview of Pakistan's Economy – Structural Reforms – Trade Reforms*".

- ***Relations with the United Kingdom.*** Since gaining independence from British colonial rule in 1947, Pakistan has developed a close relationship with the United Kingdom which has been strengthened by the substantial trading relationship between the countries, the U.K. being Pakistan's second largest trading partner, as well as hosting a Pakistani community of approximately one million in the United Kingdom.

  The U.K. Department for International Development initiated a new Operational Plan 2011-2015 which envisages assistance of GBP 1.4 billion over four years, which is expected to make Pakistan the largest recipient of the U.K.'s development assistance around the world.

  U.K. Prime Minister David Cameron was the first head of government to visit Pakistan following the May 2013 elections and, during their meetings, Prime Minister Sharif spoke of the value of the Pakistan-U.K. relationship and their shared commitment to enhancing trade. This was followed by several visits by senior U.K. government officials, including Foreign Secretary William Hague in July 2013, Home Secretary Theresa May in September 2013 and Senior Minister of State Baroness Sayeeda Warsi in October 2013.

  Pakistan and the U.K. signed a "Declaration on Pakistan-U.K. Enhanced Strategic Dialogue" in April 2011 which includes annual summit level meetings at Prime Minister level and bi-annual meetings at Foreign Minister level. The second bilateral meeting is scheduled for March 2014 in London.

  There are over 100 U.K-based companies operating in Pakistan with foreign direct investment (**FDI**) of over U.S.$2.7 billion over the last decade, focusing on the financial services, oil and gas, power, pharmaceutical and publishing sectors. The U.K. was also instrumental in getting support for Pakistan's inclusion in the Generalised System of Preferences Plus (**GSP+**) scheme, which is expected to significantly boost Pakistan's exports to the EU. On 17 December 2013, the second U.K.-Pakistan Trade and Investment Conference was held in London to raise awareness of business opportunities in Pakistan. The annual conference is one of the incentives that the U.K. government committed to in the Pakistan-U.K. Trade and Investment Plan. See "*Overview of Pakistan's Economy – Relationship with Multilateral and Bilateral Creditors – United Kingdom*".

- ***Relations with Afghanistan.*** Pakistan is implementing development projects in Afghanistan in the areas of health, education, infrastructure and house-building, and has provided a general assistance package of U.S.$500 million. Pakistan continues to host more than 1.6 million registered, and more than one million unregistered, Afghan refugees and has recently extended their stay in Pakistan through 31 December 2015. Pakistan and Afghanistan are also major trading partners with trade between the countries totalling U.S.$2.35 billion in 2012-13. Both countries continue to develop bilateral economic cooperation and are working together on a number of regional projects relating to roads, rail, energy and connectivity.

Prime Minister Sharif has had four summit meetings with Afghan President Hamid Karzai since assuming office in June 2013, principally to discuss security issues and matters relating to the Afghan peace process. Afghanistan, Pakistan and Turkey agreed to strengthen dialogue and interaction at the military and intelligence levels, while working to deepen cooperation in diverse fields.

Exercising effective control over the Federally Administered Tribal Areas and other parts of the border with Afghanistan presents significant challenges for the Government due to a combination of difficult terrain, the remoteness of the region and strong tribal loyalties among the local population. In order to control cross-border movement of persons believed to pose a threat to health and security, the Government maintains approximately 4,186 posts and deploys 158,000 troops along the Pakistan-Afghanistan border. Pakistan's decision to implement selective fencing, border monitoring and control systems is also intended to stop cross-border infiltration.

- ***Relations with Iran*.** Pakistan and Iran enjoy cordial relations grounded in a common religion, history, culture and geography. The Government remains committed to furthering economic relations with Iran by intensifying trade links. Pakistan trades primarily food and metal products with Iran, and in 2013 this trade totalled approximately U.S.$97,715,000 in exports and U.S.$167,555,000 in imports. The current Iran-Pakistan gas pipeline project represents an important bilateral initiative, particularly given Pakistan's energy needs for a sustainable economic environment. Pakistan has not yet commenced construction on its section of the pipeline due to international sanctions against Iran. See "*Overview of Pakistan's Economy – Energy in Pakistan – Iran-Pakistan Gas Pipeline Project*".

- ***Relations with Turkey.*** Pakistan and Turkey enjoy cordial relations and the Government seeks to develop the economic relationship further. The Government concluded a Pakistan-Turkey Preferential Trade Agreement in the first quarter of 2014 which is expected to significantly increase trade in the short to medium-term. Turkey invests significantly in Pakistani energy, infrastructure and urban development projects.

- ***Relations with Saudi Arabia*.** Pakistan and Saudi Arabia enjoy special relations, grounded in common faith and history. There are regular exchanges at senior government levels, most recently a visit by HRH Prince Salman bin Abdulaziz Al Saud, Crown Prince and Deputy Prime Minister and Defence Minister on 15-17 February 2014.

  Saudi Arabia has provided financial support to Pakistan on numerous occasions, particularly during times of economic crisis in Pakistan. Following the imposition of economic sanctions on Pakistan in the aftermath of nuclear tests in 1998, Saudi Arabia supplied 149 million barrels of oil under special arrangements up until 2003. Saudi Arabia also gave significant amounts of development grants as well as U.S.$250 million for power projects and fertilizer imports.

  Saudi Arabia is home to over 1.5 million Pakistani expatriates, providing approximately U.S.$4 billion of foreign workers' remittances in 2013.

  Pakistan also maintains long-standing close military ties with Saudi Arabia, providing extensive support and training for its armed forces. Over 1,100 Pakistan defence personnel serve in Saudi Arabia and a large number of Saudi personnel benefit from training in Pakistan. The two countries have a Military Cooperation Agreement, signed in July 2005, and an agreement regarding the provision of military training services.

Nuclear Programme

On 11 May and 13 May 1998, India carried out nuclear weapons tests. In response, Pakistan carried out nuclear tests on 28 May and 29 May 1998. Since the nuclear tests of 1998, Pakistan has held regular dialogues with the U.S. and other countries on regional security and non-proliferation issues. During these dialogues, Pakistan has presented a number of proposals to promote nuclear restraint and responsibility, including a strategic restraint regime in South Asia. Pakistan's strategic nuclear assets are under stringent domestic organisational, administrative and command and control structures.

The National Command Authority of Pakistan, established under the National Command Authority Act 2010, and chaired by the prime minister of Pakistan, exercises command and control over research, development, production and use of nuclear assets.

Pakistan Nuclear Regulatory Authority, an autonomous regulatory body, regulates the safety and security of civilian nuclear materials and facilities. It works closely with the International Atomic Energy Agency (the **IAEA**) and benefits from its recommendations and guidance.

Other measures Pakistan has undertaken to secure, control and protect its nuclear assets include:

- issuing a national control list relating to nuclear and biological weapons and their delivery, including export controls maintained by the Nuclear Suppliers Group (a multinational body focused on reducing nuclear proliferation), Australia Group (an informal group of countries, including the EU, aimed at controlling exports of goods that contribute to the spread of chemical and biological weapons), and Missile Technology Control Regime (a partnership between 34 countries aimed at preventing the proliferation of missiles and other aerial technology capable of carrying heavy payloads);

- joining the Convention on the Physical Protection of Nuclear Material;

- following the guidelines of the IAEA Code of Conduct on the safety and security of radioactive sources;

- participating in the IAEA Illicit Trafficking Database;

- signing a memorandum of understanding with the U.S. on the Container Security Initiative, according to which all Pakistani cargo bound for the U.S. must be scanned prior to departure;

- establishing the National Export Control Authority for further implementation of export control policy;

- being a party to the Convention on Nuclear Safety, as well as the two international Conventions on Early Notification and Assistance; and

- developing a strong radiation emergency response mechanism, Pakistan is institutionalising a nuclear emergency management system, to handle different types of nuclear and radiological related emergencies, and establishing a nuclear and radiological emergency support center to handle nuclear-related emergencies.

Fight against Terrorism

Pakistan's economy is negatively affected by the Fight against Terrorism intensifying over recent years in Afghanistan. Since 2006, the Fight against Terrorism in Pakistan has cost Pakistan more than 49,000 lives, including 5,000 security personnel, the destruction of infrastructure and has caused internal dislocation of millions of people from parts of north-western Pakistan, erosion of the investment climate, reduced production, growing unemployment and has slowed down economic activity in many parts of Pakistan.

After the events of 9/11, Pakistan assumed the role of a frontline state in the global Fight against Terrorism. The onset disrupted Pakistan's normal trading activities, as the cost of trading increased substantially because of higher insurance costs. Consequently, economic growth slowed, demand for imports reduced, with a consequential decline in tax collection and inflows of foreign investment fell.

The events that transpired after 9/11 in Afghanistan worsened the security environment in Pakistan, resulting in certain travel bans for visitors to Pakistan from other countries. This diminished Pakistan's exports, reduced the inflows of foreign investment, affected the pace of Pakistan's privatisation programme, slowed overall economic activity, reduced import demand, reduced tax collection and has resulted in additional security spending.

The Fight against Terrorism has also resulted in the destruction of physical infrastructure (military and civil), the dislocation of thousands of people and the associated rise in expenditure to support them. While the Government's increased anti-terrorism activities have been successful, it has also resulted in significant human and financial losses.

The Government entered into negotiations with a team nominated by *Tehreek-e-Taliban* (also known as the Pakistani Taliban, or TTP) in February 2014 to establish a framework for peace talks. Both delegations agreed that each side would not act in any way which may damage the process as the dialogue continues.

In addition to terrorist attacks by groups seeking to overthrow the government in Islamabad and to replace it with a religious government, Pakistan also faces attacks from insurgents who want greater autonomy in Balochistan, Sindh and the Federally Administered Tribal Areas.

Localised terrorist attacks in which militants destroy railway links, gas pipelines and power pylons and launch attacks on Government buildings and army bases in the Khyber Pakhtunkhwa province and the southwest province of Balochistan are common. There have also been high profile attacks such as the attack on a naval base in Karachi in 2011 and the attack on the district court in Islamabad on 3 March 2014. The withdrawal of the U.S. troops from Afghanistan may result in increased capacity for terrorist groups operating in Pakistan, resulting in greater instability.

There have been historic tensions between India and Pakistan. Tensions resurfaced following the attacks in Mumbai in November 2008, however, it was acknowledged by India that the attacks were not sponsored by Pakistan. In September 2013, Prime Minister Sharif promised to take action against *Lashkar-e-Taiba* in relation to the Mumbai attacks, and in January 2014 Pakistan's anti-terrorism court began hearing the trial of seven men charged with involvement in the attacks.

It is estimated that the total cost to Pakistan of the Fight against Terrorism was more than U.S.$100 billion for the period from 2001 to 2014, with costs having increased particularly since 2008 as a result of increased levels of military action. Pakistan's investment-to-GDP ratio has declined from 17.55 per cent in 2008-09 to 14.22 per cent in 2012-13.

National Security Reform. In recent years there has been significant development of counter-terrorism laws in Pakistan, including:

- the National Counter Terrorism Authority Act 2013 which established the National Counter Terrorism Authority (**NACTA**) as Pakistan's anti-terrorism institution, mandated with developing a national counter-terrorism plan, coordinating the 33 institutions involved in internal security, and liaising with international counter-terrorism agencies;

- the Investigations for Fair Trials Act 2013 which introduced new evidence rules, permitting the surveillance of emails, phone calls and SMSs of suspects under a warrant of the High Court;

- the First and Second Amendments to the Anti-Terrorism Act 2013 which expanded the definition of terrorism to include intimidating the business community and created new anti-terrorism courts in Karachi; and

- the Protection of Pakistan Ordinance 2013 and the Protection of Pakistan Ordinance (Amendment) 2014 which increased the powers of the security forces in relation to suspected terrorists, permitting arrest and search of property without a warrant.

In addition to legislative changes, in February 2014 the Government announced its National Internal Security Policy 2014-2018 (**NISP**) which sets out its four-year plan to improve the security situation in Pakistan. Under the supervision of NACTA, the NISP provides for: (i) dialogue with anti-state groups to resolve disputes; (ii) the isolation of terrorists from their social and financial support systems; and (iii) improving the resources available to the security forces to effectively prevent terrorist attacks. Various measures have been proposed to implement the NISP including the creation of a federal rapid response force, improved border controls with Afghanistan, integration of civilian and military surveillance information and the inclusion of mosques and madrasas into the educational system.

OVERVIEW OF PAKISTAN'S ECONOMY

Pakistan's economy is the twenty-seventh largest in the world in terms of purchasing power parity and the forty-fourth largest in terms of GDP, according to best estimates from publicly available sources. Pakistan is a rapidly developing country and is one of the "Next Eleven" countries that have the potential to become significant world economies in the next 25 years. Pakistan's economy is semi-industrialised, with centres of growth along the Indus River, Karachi and major urban centres in the Punjab. It ranks as the fifteenth largest trader of goods in the world and the world's sixth largest trader of services, according to best estimates from publicly available sources. Major industries include textiles, chemicals, food processing, agriculture, fertilizer, cement, dairy and rugs.

Pakistan's economy has historically suffered from decades of internal political disputes, a fast growing population and mixed levels of foreign investment. Its foreign exchange reserves are bolstered by steady worker remittances, offset by a significant current account deficit – driven by a widening trade gap as import growth outstrips export expansion – which also negatively affects its GDP.

Under its new Government, elected in May 2013, Pakistan is currently undergoing a significant process of economic liberalisation which includes privatisation of SOEs and is aimed at attracting foreign investment and decreasing the budget deficit.

Pakistan's currency is the Rupee and its fiscal year is 1 July to 30 June. It has three principal sectors: services (57.7 per cent of GDP 2012-13), industrial (20.9 per cent of GDP 2012-13) and agriculture (21.4 per cent of GDP 2012-13).

Pakistan's principal export destinations are the U.S., China, the United Arab Emirates and Afghanistan. In 2012-13, Pakistan's exports were U.S.$24.8 billion, principally in the form of textiles, rice, leather, chemicals, carpets, steel, foodstuffs, fertilizer, cement, sugar, animals, electrical equipment, petroleum and rugs. Pakistan's principal imports are from China, Saudi Arabia, the United Arab Emirates and Kuwait. In 2012-13, Pakistan's imports were U.S.$40.2 billion, principally petroleum, petroleum products, machinery, plastics, transportation equipment, edible oils, paper, iron, steel and tea.

Economic History

In 2001, Pakistan reached an agreement with the Paris Club of creditors (**Paris Club**) with respect to U.S.$12.7 billion of debt. The Paris Club is an informal group of financial officials from 19 of the world's biggest economies which aims to find coordinated and sustainable solutions to the payment difficulties experienced by debtor countries. See "*Public Debt – Debt Restructuring – Paris Club*".

From 2001 until the global economic crisis of 2008, Pakistan enjoyed a relatively robust economic performance. However, in 2007 and early 2008, inflation began to rise and external imbalances expanded. Conditions deteriorated in mid-2008 with the sharp increase in international food and fuel prices and worsening of the domestic security situation. The fiscal deficit widened, due in large part to rising energy subsidies financed by credit from the SBP. As a result, the Rupee depreciated and foreign currency reserves fell sharply.

Despite one of the most serious economic crises in Pakistan's recent history, a measure of macroeconomic stability has been achieved in recent years. GDP growth was 3.6 per cent in 2012-13, 4.4 per cent in 2011-12 and 3.7 per cent in 2010-11. The slowdown in GDP growth from 4.4 per cent in 2011-12 to 3.6 per cent in 2012-13 was principally due to severe energy shortages in Pakistan, as well as the disruptions to law and order brought on by the Fight against Terrorism which included some destruction of physical infrastructure. See "*Energy in Pakistan*" below and "*The Islamic Republic of Pakistan – Fight Against Terrorism*".

Major Economic Indicators

The following table sets out major economic indicators from 2008-09 to 2012-13 and for the first six months of 2012-13 and 2013-14:

	2008-09	2009-10	2010-11	2011-12	2012-13[1]
GDP at current market price (*Rupees million*)................................	13,199,707	14,866,996	18,284,869	20,090,862	22,909,079
GNI at current market price (*Rupees million*)	13,545,988	15,433,243	19,105,094	21,126,569	24,010,565
Population (*million*)............................	168.2	171.7	175.3	178.9	182.5
Per capita income at factor cost (*Rupees*)...	76,635	86,268	105,395	114,256	124,459
Per capita income (*U.S.$*)	1,026	1,072	1,275	1,323	1,368
Exports (*U.S.$ million*)	19,121	19,673	25,356	24,696	24,795
Imports (*U.S.$ million*).......................	31,747	31,209	35,872	40,461	40,226
Balance of trade (*U.S.$ million*)..........	(12,626)	(11,536)	(10,516)	(15,765)	(15,431)
Workers' remittances (*U.S.$ million*) ..	7,811	8,906	11,201	13,186	13,922
Current account (*Rupees million*)	(9,261)	(3,946)	214	(4,658)	(2,496)
Current account (*as % of GDP*)..........	(5.5)	(2.2)	0.1	(2.1)	(1.1)
Overall fiscal deficit (*as % of GDP*).....	5.2	6.3	6.6[2]	6.6[3]	8.0
GDP growth at factor cost (*%*)...........	0.4	2.6	3.7	4.4	3.6
Inflation (*%*).......................................	17.0	10.1	13.7	11.0	7.4
Total investment at market price (*as % of GDP*)...	17.6	15.8	14.1	14.9	14.2
Real GDP at factor cost (*Rupees million*)	8,579,987	8,801,394	9,123,771	9,521,683	9,863,234
Private consumption expenditure at current prices (*Rupees million*)...........	10,455,752	11,851,316	14,839,587	16,584,789	18,567,229
National savings (*as % of GDP*).........	12.0	13.6	14.2	12.8	13.5

(1) Provisional pending National Assembly approval in May 2014 of Pakistan's economic data for 2012-13.
(2) Includes payment of arrears of electricity subsidies.
(3) Excludes a one-off payment of Rupees 391 billion on account of debt consolidation.

Source: Ministry of Finance, except for 'Exports' and 'Imports' for which the source is the State Bank of Pakistan

Economic Policy Objectives

The current Government of Pakistan, elected in May 2013, has formulated a programme called Vision 2025 as Pakistan's long-term development plan aimed at creating a globally competitive and prosperous country. This programme aims to transform Pakistan into an industrialised and knowledge-based middle-income country by 2025.

The Government's economic objectives under Vision 2025 are as follows:

- to achieve macroeconomic stability;
- to revive economic growth;
- to reduce poverty; and
- to improve governance.

The Government's existing finance programme with the IMF effectively institutionalises the Government's economic policy objectives set forth above. Pursuant to its financing arrangements with the IMF, Pakistan is subject to extensive quarterly economic review by IMF officials for consideration by the executive board of the IMF. Since the current Government took office in May 2013, Pakistan has been subject to review by the IMF twice, with the IMF publishing reports in January 2014 and in March 2014. See *"Public Debt – Relationship with Multilateral and Bilateral Creditors – IMF*" below.

Achieve Macroeconomic Stability. The Government's economic policy objectives seek to achieve macroeconomic stability and foster sustainable and more equitable growth by means of structural improvements in the productive sectors of Pakistan's economy, involving a broad range of policy actions across sectors. See "*The Islamic Republic of Pakistan – Government and Politics – Current Pakistan Government*" above.

Following the election of the Government in May 2013 and its implementation of Vision 2025, significant initial gains in restoring macroeconomic stability have been made. Principal economic developments since the Government was elected include the following:

- *Fiscal Deficit*. The fiscal deficit for the first six months of 2013-14 represented 2.1 per cent of GDP, compared to 2.6 per cent of GDP in the first six months of 2012-13. The Government's fiscal deficit target for 2013-14 is 6.3 per cent of GDP, based on its policy of increased tax collections and tax reform measures. The Government has plans to lower the deficit to approximately 3.5 per cent of GDP by 2016-17 by phasing out electricity subsidies, improving revenue collections and other measures described below. The Government will continue to seek to eliminate and close tax exemptions and loopholes created through SROs implemented by the predecessor government. The Government intends to introduce legislation that permanently prohibits the practice of issuing SROs by the end of December 2015;

- *GDP Growth*. GDP growth is forecast at 4.4 per cent for 2013-14 and 5.5 per cent for 2014-15, respectively. Pakistan's industrial sector has seen strong growth as electricity supply constraints eased on industrial production as a result of the Government's measures to tackle the energy crisis in Pakistan. See "*Principal Sectors of the Economy – Industrial Sector*" and "*Energy in Pakistan*" below;

- *Inflation*. Inflation is projected to remain at approximately 8 per cent in 2013-14 and continue at this level in 2014-15 as a result of the Government's monetary policy and stable macroeconomic policies. Recent and essential electricity tariff adjustments in October 2013, as well as food price increases, resulted in increased inflationary pressure. See "*Balance of Payments and Foreign Trade – Inflation, Money and Monetary Policy*";

- *Balance of Payments*. The SBP is undertaking corrective action to boost reserves through higher base interest rates, purchases in the foreign exchange market and greater exchange rate flexibility. The Government has taken measures to increase foreign exchange inflows through borrowing on global markets, embarking on a comprehensive privatisation programme and accelerating the disbursement of loans and grants. As a result, Pakistan's balance of payments situation has improved since the Government took office, although its foreign exchange reserves are still too low. Foreign exchange reserves decreased to U.S.$11.0 billion at the end of 2012-13 from U.S.$15.3 billion at the end of 2011-12 and U.S.$18.2 in 2010-11 principally as a result of substantial repayment of IMF loans. See "*Balance of Payments and Foreign Trade – Inflation, Money and Monetary Policy*"; and

- *Debt*. Pakistan's external debt is expected to decline to approximately 22 per cent of GDP in the medium term, subject to significant exchange rate depreciation, a decline in remittances and/or a rise in oil prices. Public debt is also expected to decline over the medium-term. See "*Public Debt*".

Revival of Economic Growth. The Pakistan economy experienced low GDP growth rates from 2008-09 to 2010-11, principally due to short supplies of energy, poor law and order and the 2010 and 2011 floods. The global economic crisis of 2008 also negatively impacted growth in Pakistan's economy. Real GDP growth averaged 2.9 per cent from 2008-9 to 2012-13 and, during the first quarter of 2013-2014, GDP growth averaged 5 per cent growth, compared to 2.9 per cent in the first quarter of 2012-13. Pakistan's GDP growth environment continues to be affected domestically by the intensification of the Fight against Terrorism and the generally volatile security situation. GDP growth is also affected by increasing oil price rises.

The Government has taken measures to improve the GDP growth trajectory, primarily by reform of the energy sector and other supply constraints, which has already generated growth in the industrial sector. See *"– Energy in Pakistan"*.

The Government also implemented structural reforms aimed at reinvigorating the economy, increased growth, the maintenance of price stability, increased job opportunities for youth, the development of infrastructure projects and increased exports and tax collection, as well as reducing both the fiscal and current account deficits. See "*– Structural Economic Reforms*"

Poverty Reduction. The overall vision of PRSP II, which was finalised in 2008, was to steer Pakistan's economic growth back to the range of 5-7 per cent a year by stimulating growth in the manufacturing sector thus creating additional employment opportunities, improving income distribution and harnessing Pakistan's economic competitiveness through economic liberalisation, deregulation and transparent privatisation. While PRSP II was initially designed to end in 2011, the current Government continues to spend under the programme. Moreover, the Fiscal Responsibility and Debt Limitation Act 2005 provides that expenditures on social and poverty related spending should be not less than 4.5 per cent of GDP in any year. During 2012-13, Rupees 1,911 billion, or 8.3 per cent of GDP, was spent under PRSP II – which is funded directly from the Government of Pakistan's budget.

The Government's social safety net programme includes an income support programme (known as **BISP**) which was launched in July 2008 with the objective of cushioning the negative effects of slow economic growth, the fuel, food price and financial crisis and the effect of high inflation on the poor, particularly women, through the provision of a cash grant of Rupees 1,200 (approximately U.S.$12) per month to eligible families. Currently BISP is helping around five million poor households across Pakistan through monthly cash grants, stipends for school enrolments, vocational training and a range of complementary initiatives.

For 2013-14, the total budget allocation for BISP is Rupees 75 billion, which increased from Rupees 70 billion in 2012-13. Pakistan also receives multilateral funding for BISP, which includes U.S.$96 million received in 2013-14 from the U.K. Department for International Development out of a total commitment of U.S.$446 million between 2012-2020, as well as an estimated U.S.$48 million currently under negotiation with the ADB and World Bank out of total programme sizes of U.S.$430 million and U.S.$150 million, respectively, between 2012-19. In September 2013, the amount of the monthly cash grant awarded under BISP increased from Rupees 1,000 per month per family to Rupees 1,200 per month.

Additionally, to enhance self-employment, some registered beneficiaries of BISP are selected through a monthly draw under *Waseela-e-Haq* (a specific scheme within BISP) and each of them are provided with an interest-free loan worth Rupees 300,000, repayable in instalments over a period of 15 years. The Government is also working on various microfinance initiatives, in collaboration with the SBP and multilateral institutions, to generate employment and combat poverty; under the *Waseela-e-Haq* initiative to date Rupees 2.6 billion has been disbursed to 16,119 beneficiaries. Under other BISP initiatives, 57,000 individuals from BISP beneficiary families have been provided vocational and technical training, 4.1 million families have received three years life and health insurance for income earners and approximately 37,000 children have been able to attend school as their families have received extra income support.

The Government is currently undertaking a number of additional initiatives – for which a budget of Rupees 25 billion exists in 2013-14 – to support youth and alleviate poverty, including a youth business loan scheme, a skills development programme, a youth training programme, a microfinance scheme, an educational fee reimbursement fund for post-graduate students from less developed areas, as well as the provision of laptops to students in higher education.

Improved Governance. The Government gives a high priority to improving national governance. While initial actions focused on accountability, especially with respect to loan and tax defaulters, the Government has embarked on a series of reform measures the key elements of which include devolution and decentralisation of state power to the local level, downsizing/rightsizing of government offices, judicial and police reform and the introduction of transparency in economic decision-making processes.

Structural Economic Reforms

The Government's broad economic programme Vision 2025 has been supplemented by a series of wide-ranging structural reform measures, which are needed to enhance economic incentives and improve resource allocation, as well as to remove impediments to private sector development. The Government believes that Pakistan's economic problems are structural in nature and the objectives of sustaining high growth, low inflation and external payment viability cannot be achieved without removing certain structural barriers.

The Government's major structural economic reforms include tax reform, privatisation, trade reform to facilitate further privatisation, reform of WAPDA and financial sector reform.

Tax Reform. Pakistan's Federal Board of Revenue (**FBR**) has taken various medium term policy and administrative measures to increase the tax-to-GDP ratio from 9.6 per cent (2012-13) to 15 per cent (2017-18). The objective is for the FBR to issue an additional 100,000 tax notices by the end of 2013-2014, to capture an additional 300,000 new taxpayers by 2015-16, to develop a full tax administration strategy, to ensure the reduction of certain tax exemptions and concessions and to improve anti-money laundering rules. See *"Public Finance and Taxation – Revenue and Expenditure – Tax Collection".*

Privatisation*.* The principal objective of the Government's privatisation policy is to reduce the demand on government resources, raise funds for priority sectors, improve the efficiency of the economy through the sale of SOEs and stimulate direct investment in Pakistan. Privatisation is a high priority for the Government as part of its overall economic reforms and the scope of its privatisation programme includes public sector entities in the power, oil and gas, banking, insurance, infrastructure, telecoms, real estate and industrial sectors.

Pakistan's Privatisation Commission evaluates SOEs for privatisation, starts the bidding process and makes recommendations to the cabinet committee on privatisation (**CCOP**). Under the Privatisation Commission Ordinance of 2000 (the **Ordinance**) 90 per cent of privatisation proceeds shall be utilised for retirement of federal government debt and 10 per cent for poverty alleviation. Under the Ordinance, the privatisation process is conducted through well-defined procedures, including consultation with all stakeholders. The Government intends to use both domestic and international capital markets for the divestment of SOEs in order for the public to participate directly in the privatisation process.

Pakistan has a history of privatisation transactions and from 1991 through 2013 completed 167 transactions across a broad range of sectors resulting in sale proceeds of Rupees 476 billion. The last privatisation that occurred in Pakistan was in 2008.

The Privatisation Commission has identified 31 entities for early privatisation, as approved by the CCOP in its meeting held in October 2013. The Privatisation Commission has also resolved that financial advisors can be hired by the Privatisation Committee for the privatisation of the following 11 entities:

Entity	Approximate Government Holding (including BESOS(1))	Divestment Size/Mode	Market Capitalisation (*U.S.$ Million*)(2)(3)	Target Date
Oil and Gas Development Company (**OGDCL**)…………………………… ...	85%	Up to 10% capital market transaction	11,728	2014-15
Pakistan Petroleum Limited (**PPL**)	78%	Up to 5% capital market transaction	4,759	2014-15
United Bank Limited (**UBL**)	20%	Up to 20% capital market transaction	1,757	2014-15
Habib Bank Limited (**HBL**)	42%	Up to 42% capital market transaction	2,444	2014-15
Allied Bank Limited (**ABL**)....................	10%	Up to 10% capital market transaction	977	2014-15
National Power Construction Company (**NPCC**)...............................	100%	Strategic sale	Unlisted	2014-15
Heavy Electrical Complex	100%	Strategic sale	Unlisted	2014-15
Pakistan International Airlines (**PIA**).....	93%	Strategic private sector participation	Unlisted	Subject to pre-privatisation restructuring
Faisalabad Electric Supply Company (**FESCO**).............................	100%	Strategic private sector participation	Unlisted	To be decided
Lahore Electric Supply Company (**LESCO**)...	100%	Strategic private sector participation	Unlisted	To be decided
Thermal Power Station – Muzaffargarh.......................................	100%	Strategic private sector participation	Unlisted	To be decided

(1) Benazir Employee Share Option Scheme, which offers a 12 per cent share in public sector enterprises to their employees. To date, shares with a nominal amount of approximately Rupees 12 billion have been distributed free of charge among the employees of 80 public sector enterprises pursuant to the BESOS.
(2) Based on closing price of shares on the KSE on 14 March 2014.
(3) U.S.$ amount calculated based on U.S.$ / PKR exchange rate on 14 March 2014, being PKR 99.01 per U.S.$.

Source: Ministry of Finance

Trade Reforms. Pakistan has implemented deregulation in all areas including trade. The current Government embarked on an accelerated economic programme by encouraging foreign direct investment, easing restrictions on imports and liberalising foreign exchange regulations. It is estimated that as a result of trade liberalisation, Pakistan's exports will exceed U.S.$25 billion in 2013-14. There is currently a medium term Strategic Trade Policy Framework (**STPF**) covering the three years 2012-15 which was announced in January 2013. The STPF 2012-15 plans to enhance Pakistan's export competitiveness in the short and long term, to increase Pakistan's cumulative exports to U.S.$95 billion during 2012-15, to produce and export a more sophisticated and diversified range of products to new markets and to help reduce unemployment and poverty in Pakistan. In order to achieve these goals, the Ministry of Commerce has launched a reform programme of the trade legislation and related institutions to facilitate trade and help improve foreign exchange reserves, the balance of payment position and other macroeconomic indicators.

Pakistan has remained committed to the rule based, non-discriminatory multilateral trading system governed by the WTO regime. Tariffs on industrial and agriculture products have been reduced substantially and quantitative restrictions have been eliminated.

Since 2012, Pakistan has operated a "negative list regime" for trade with India. The negative list specifies items that may not be imported into the country and has been significantly reduced by the current Government. The impact of these measures is evidenced by the quadrupling of Pakistan's exports to India (U.S.$327.5 million in 2012-13) and the tripling of Pakistan's imports from India (U.S.$1.8 billion in 2012-13 compared to 2011-12). The Government believes that these changes will endure a change in the government of India if any such change results from India's forthcoming elections.

In order to promote regional and bilateral trade, Pakistan has entered into several trading arrangements with countries of the region such as the SAFTA Agreement, the Pakistan-Sri Lanka Free Trade Agreement, the China-Pakistan Free Trade Agreement, the Comprehensive Free Trade Agreement between Pakistan and Malaysia and a Preferential Trade Agreement with Islamic Republic of Iran (subject to applicable sanctions compliance). All agreements are aimed at further facilitating an increase in exports at large, as well as in regional trade.

In December 2013, the EU Parliament voted to confirm Pakistan as one of ten countries to enter into the GSP+ scheme. Under GSP+, Pakistan will benefit from duty-free access to the EU market in respect of 90 per cent of its exports to the EU, provided that the Government implements legislation to improve human rights, labour standards, sustainable development and good governance, all of which are part of the current Government's programme. The Government believes that GSP+ has the potential to generate one million new jobs and add U.S.$1.5 billion to the Pakistani economy in 2014, principally through increased exports of alcohol, carpets, plastics, footwear, leather, non-value-added textiles, home textiles and textile garments, all of which attracted large tariffs up until 31 December 2013 after which such tariffs were removed under GSP+ allowing for duty-free trade.

Reform of the Pakistan Water and Power Development Authority. WAPDA was created in 1958 as a semi-autonomous body for the purpose of coordinating and giving a unified direction to the development of schemes in the water and power sectors. These were previously being dealt with by the respective provinces.

In 2007, WAPDA split into two distinct entities: WAPDA and the Pakistan Electric Power Company (**PEPCO**). WAPDA is responsible for water sector projects and hydroelectric power development, whereas PEPCO is responsible for thermal power generation, transmission, distribution and billing, as well as for the management of all the affairs of the nine corporatised distribution companies (**DISCOs**), four generation companies (**GENCOs**) and the national transmission dispatch company (**NTDC**). These companies each operate under an independent board of directors. The majority shareholder in all these companies is the Government, with shareholdings ranging between 93 and 95 per cent.

In 2007, the Ministry of Water and Power approved tariffs for all distribution companies replacing the unified WAPDA Tariff. In September 2010, the then government developed a power sector reform which has been endorsed by all stakeholders and international partners. Reforms to date have resulted in a reduction of subsidies for the power sector, reducing its impact on Pakistan's fiscal deficit.

Under the Government's power sector reform plan, Pakistan's power distribution companies are to be made autonomous. The boards of directors of the DISCOs and NTDC have been reconstituted as professional and autonomous boards. The legal framework of the National Electric Power Regulatory Authority is being strengthened and the governance structure of the power sector is being improved. See "*Energy in Pakistan – Power Sector Reform*".

Financial Sector Reforms. The Government has transferred the supervision and regulation of non-bank financial companies to the Securities and Exchange Commission of Pakistan (**SECP**) to enable the SBP to focus on the supervision of the banking sector. The SBP has revised banking regulations with a view to providing flexibility and enhancing prudence. The SBP's supervisory regime comprises guidelines, rules and regulations to: (i) facilitate the development and growth of primary and secondary markets; (ii) strengthen risk management and internal control systems in banks; (iii) set minimum prudential standards for financing, operations, know-your-client, anti-money laundering, counter-terrorist financing and corporate governance; (iv) strengthen the solvency regime though risk-based capital requirements in line with the Basel capital accord; (v) accelerate the recovery process of defaulted loans; (vi) strengthen the governance, disclosures and transparency in the practices of commercial banks, including a fit and proper test for the appointment of key executive officers and boards of directors; (vii) enhance payment systems and increase connectivity of ATMs through shared networks; and (viii) promote alternative delivery channels such as "branchless banking".

The banking system has shown reasonable resilience to different shocks in the aftermath of the global financial crisis and maintained its profitability and strong risk-based solvency indicators. To promote consolidation in the banking sector, the SBP has increased minimum capital requirements and encouraged financial institutions to engage in mergers and acquisitions. To strengthen the financial markets, banks have been permitted to raise funds from the capital markets in the form of rated and listed subordinated debt securities, which can be included in the bank's supplementary capital.

The SECP introduced various structural, legal and fiscal reforms aimed at strengthening risk management, increasing transparency, improving governance of the capital market infrastructure institutions, enhancing investor protection and launching new product and market development initiatives. Recent regulations are aimed at improving protection of debenture holders' interests, enabling the registration of security interests and recognising trustees.

The stock exchanges in Pakistan are in the process of corporatisation and demutualisation. Demutualisation is an important reform for the Pakistan capital markets as it addresses the conflicts prevalent in the historic mutualised regime of the stock exchanges by segregating commercial and regulatory functions and separating ownership from trading rights. Demutualisation is expected to enhance governance and transparency in the stock exchanges and thus encourage investors.

An Islamic banking department has been created in the SBP to promote Islamic banking in Pakistan. The SBP has also become a founding member of the Malaysian-based Islamic Financial Services Board which is responsible for preparing standards and guidelines for Islamic financial institutions. See "*Overview of Pakistan's Economy – Principal Sectors of the Economy – Services Sector – Financial Services – Islamic Banking*".

Any delay in the implementation of the economic reforms being undertaken in Pakistan may have a negative effect on the performance of the Pakistani economy and may hinder the Government's ability to obtain external financing, including further funding from the IMF which will depend, amongst other things, on the progress of the implementation of such reforms. Although the Government intends to proceed with its economic reforms, there can be no assurance that these reforms will be fully implemented or that, if implemented, will be successful.

Gross Domestic Product

The composition of Pakistan's GDP has undergone considerable change over the last three decades as it experienced growth away from the agricultural sector in favour of the services sector. While the share of the industrial sector has remained relatively constant at almost 20.9 per cent of GDP over the last five years, the agriculture sector declined from its highest level of approximately 39 per cent of GDP in 1969-70 to 21.4 per cent of GDP in 2012-13 while the services sector increased from 45 per cent of GDP in 1969-70 to 57.7 per cent of GDP in 2012-13.

The following table sets out Pakistan's GDP at constant 2005-06 factor cost GDP growth rates, as well as the contribution of various sectors of the economy to GDP in the period 2008-09 to 2012-13:

Sectors	2008-09	2009-10	2010-11	2011-12	2012-13[1]	2010-11/ 2011-12	2011-12/ 2012-13
	(*Rupees million, unless otherwise stated*)					(*% change*)	
A. SERVICES SECTOR......................	**4,855,033**	**5,010,698**	**5,208,136**	**5,486,218**	**5,689,778**	**5.3**	**3.7**
1. Wholesale and retail trade	1,652,874	1,682,465	1,718,014	1,746,463	1,790,423	1.7	2.5
2. Transport, storage and communication............................	1,136,990	1,170,612	1,198,896	1,305,766	1,350,706	8.9	3.4
3. Finance and insurance............	296,427	286,775	274,674	277,443	295,865	1.0	6.6
4. Housing services (ownership of dwellings)................................	567,941	590,718	614,460	639,062	664,567	4.0	4.0
5. General government services ..	462,193	499,038	569,191	632,130	667,559	11.1	5.6
6. Other private services	738,608	781,089	832,901	885,354	920,658	6.3	4.0
B. AGRICULTURE SECTOR..............	**1,934,691**	**1,939,132**	**1,977,178**	**2,045,481**	**2,113,930**	**3.5**	**3.3**
1. Crops......................................	832,916	798,244	806,162	829,236	855,753	2.9	3.2
Important crops	497,113	478,540	485,722	521,556	533,600	7.4	2.3
Other crops	279,273	259,054	264,934	244,493	260,818	(7.7)	6.7
Cotton ginning..................	56,530	60,650	55,506	63,187	61,335	13.8	(2.9)
2. Livestock.................................	1,013,286	1,051,755	1,087,406	1,130,339	1,171,936	3.9	3.7
3. Forestry	40,237	40,207	42,121	42,854	42,908	1.7	0.1
4. Fishing....................................	48,252	48,926	41,489	43,052	43,333	3.8	0.7
C. INDUSTRIAL SECTOR	**1,790,263**	**1,851,564**	**1,938,457**	**1,989,984**	**2,059,526**	**2.7**	**3.5**
1. Mining and quarrying	274,710	282,269	269,798	282,154	303,547	4.6	7.6
2. Manufacturing.........................	1,180,964	1,197,163	1,227,091	1,253,286	1,297,245	2.1	3.5
Large scale	986,887	990,928	1,007,331	1,019,201	1,048,078	1.2	2.8
Small scale.......................	113,474	123,083	133,556	144,778	156,699	8.4	8.2
Slaughtering.....................	80,603	83,152	86,204	89,307	92,468	3.6	3.5
3. Electricity generation and distribution and gas distribution....	115,812	135,098	224,814	230,948	223,556	2.7	(3.2)
4. Construction............................	218,777	237,034	216,754	223,596	235,178	3.2	5.2
COMMODITY PRODUCING SECTOR (B+C)	**3,724,954**	**3,790,696**	**3,915,635**	**4,035,465**	**4,173,456**	**3.1**	**3.4**
GDP at factor cost	8,579,987	8,801,394	9,123,771	9,521,683	9,863,234	4.4	3.59
Indirect taxes	611,768	509,152	504,829	533,424	623,743	5.7	16.9
Subsidies....................................	183,930	157,993	221,063	269,772	107,716	22.0	(60.1)
GDP at market price	9,007,825	9,152,553	9,407,537	9,785,335	10,379,261	4.0	6.1
Net factor income from abroad.....	201,584	310,494	372,728	386,559	378,778	3.7	(2.0)
GNI at factor cost........................	8,781,571	9,111,888	9,496,499	9,908,242	10,242,012	4.3	3.4
GNI at market price.....................	9,209,407	9,463,047	9,780,265	10,171,894	10,758,039	4.0	5.8
Population (*million*)	168.2	171.7	175.3	178.9	182.5	2.1	2.0
Per capita income at factor cost (*Rupees*).....................................	52,215	53,059	54,171	55,381	56,111	2.2	1.3

(1) Provisional pending National Assembly approval in May 2014 of Pakistan's economic data for 2012-13.

Source: Pakistan Bureau of Statistics

The following table sets out Pakistan's GDP at current cost GDP growth rates, as well as the contribution of various sectors of the economy to GDP in the period 2008-09 to 2012-13:

Sectors	2008-09	2009-10	2010-11	2011-12	2012-13[1]	2010-11/ 2011-12	2011-12/ 2012-13
	(*Rupees million, unless otherwise stated*)					(*% change*)	
A. SERVICES SECTOR......................	**7,010,423**	**7,855,579**	**9,307,836**	**10,393,037**	**11,476,125**	**11.7**	**10.4**
1. Wholesale and retail trade	2,479,758	2,824,137	3,568,178	4,004,596	4,360,061	12.2	8.9
2. Transport, storage and communication	1,693,847	1,834,476	1,923,433	1,964,369	2,264,613	2.1	15.3
3. Finance and insurance	481,308	474,733	536,345	569,428	502,272	6.2	(11.8)
4. Housing services (ownership of dwellings)	707,261	789,220	886,370	984,315	1,092,344	11.1	11.0
5. General government services ..	654,144	778,002	1,009,433	1,244,688	1,414,069	23.3	13.6
6. Other private services.............	994,105	1,155,011	1,384,077	1,625,641	1,842,766	17.5	13.4
B. AGRICULTURE SECTOR..............	**2,998,621**	**3,461,273**	**4,592,720**	**4,740,401**	**5,474,185**	**3.2**	**15.5**
1. Crops	1,460,713	1,604,816	2,309,517	1,953,792	2,282,380	(15.4)	16.8
Important crops................	985,311	1,058,365	1,532,889	1,231,303	1,457,176	(19.7)	18.3
Other crops	392,163	423,866	552,499	579,226	673,481	4.8	16.3
Cotton ginning	83,239	122,585	224,129	143,263	151,723	(36.1)	5.9
2. Livestock	1,417,555	1,717,446	2,131,579	2,610,548	2,990,990	22.5	14.6
3. Forestry..................................	65,526	72,423	89,390	113,107	128,042	26.5	13.2
4. Fishing....................................	54,827	66,588	62,234	62,954	72,773	1.2	15.6
C. INDUSTRIAL SECTOR	**2,533,221**	**2,931,695**	**3,755,426**	**4,272,435**	**4,665,733**	**13.8**	**9.2**
1. Mining and quarrying	413,256	475,366	494,739	638,236	721,565	29.0	13.1
2. Manufacturing	1,679,072	1,943,839	2,527,651	2,803,906	3,002,820	10.9	7.1
Large scale	1,427,213	1,644,117	2,144,831	2,356,267	2,492,538	9.9	5.8
Small scale	145,946	167,383	208,611	242,146	285,511	16.1	17.9
Slaughtering.....................	105,913	132,339	174,209	205,493	224,771	18.0	9.4
3. Electricity generation and distribution and gas distribution ...	146,983	209,936	414,585	451,840	496,438	9.0	9.9
4. Construction	293,910	302,554	318,451	378,453	444,910	18.8	17.6
COMMODITY PRODUCING SECTOR (B+C)	**5,531,842**	**6,392,968**	**8,348,146**	**9,012,836**	**10,139,918**	**8.0**	**12.5**
GDP at factor cost	12,542,265	14,248,547	17,655,982	19,405,873	21,616,043	9.9	11.4
Indirect taxes	919,059	870,853	1,046,915	1,221,540	1,542,704	16.7	26.3
Subsidies....................................	261,617	252,404	418,028	536,551	249,668	28.4	(53.5)
GDP at market price	13,199,707	14,866,996	18,284,869	20,090,862	22,909,079	9.9	14.0
Net factor income from abroad	546,281	566,247	820,225	1,035,707	1,101,486	26.3	6.4
GNI at factor cost	12,888,546	14,814,794	18,476,207	20,441,580	22,717,529	10.6	11.1
GNI at market price	13,545,988	15,433,243	19,105,094	21,126,569	24,010,565	10.6	13.7
Population (*million*)......................	168.2	171.7	175.3	178.9	182.5	2.1	2.0
Per capita income at factor cost (*Rupees*)	76,268	86,268	105,395	114,256	124,459	8.4	8.9
Per capita income at market price (*Rupees*)............................	80,545	89,869	108,982	118,085	131,543	8.4	11.4

Sectors	2008-09	2009-10	2010-11	2011-12	2012-13[(1)]	2010-11/ 2011-12	2011-12/ 2012-13
Per capita income at market price (*U.S.$*)	1,026	1,072	1,275	1,323	1,368	3.8	3.4
GDP deflator index	146.2	161.9	193.5	203.8	219.2	5.3	7.5
GDP deflator (*% growth*).............	20.7	10.8	19.5	5.3	7.5	-	-

(1) Provisional pending National Assembly approval in May 2014 of Pakistan's economic data for 2012-13.

Source: Pakistan Bureau of Statistics

Principal Sectors of the Economy

Services Sector

The services sector in Pakistan consists primarily of transportation, communications and financial services. The services sector has been an important contributor to Pakistan's economic growth and it contributed 57.7 per cent of GDP in 2012-13 and grew by 5.7 per cent in the first quarter of 2013-14 (as against growth of 2.9 per cent in the comparable period of 2012-13) and 3.7 per cent in 2012-13, compared to 57.6 per cent of GDP (and growth of 5.3 per cent) in 2011-12 and 57.1 per cent of GDP (growth of 3.9 per cent) in 2010-11.

Transportation

Pakistan's transportation system has come under pressure as the pace of economic development in Pakistan has accelerated. The Government is intensifying its efforts to develop and modernise the sector through increasing public expenditure on transportation projects. The transport system in Pakistan is comprised of roads and highways, railways, air transport services and ports and shipping services.

- ***Roads and Highways****.* Roads have become the most important segment of the transport sector in Pakistan, with an ever increasing reliance on road transportation. In 1947, reliance on roads constituted approximately 8 per cent of Pakistan's transportation network. In 2013, roads accounted for over 96 per cent of inland freight and 92 per cent of passenger traffic. Pakistan's current road network is now approximately 263,415 km. This includes the National Highway Authority's (**NHA**) network of approximately 12,131 km which, despite being only 4.6 per cent of the overall road network, carries approximately 80 per cent of Pakistan's commercial traffic.

  The NHA is responsible for the construction and maintenance of the national highways and strategic roads. The Government, through the NHA, has a number of on-going projects and programmes to develop the road network including the M8 motorway, currently under construction, in the Balochistan and Sindh provinces. Once completed, the M8 motorway will have four lanes and a total length of 892 km and will terminate on the coastal highway just east of the port city of Gwadar. See "– *Ports and Shipping*".

  The 2010 floods caused severe damage to road infrastructure by destroying approximately 10 per cent of the network (25,000 km) causing a loss of U.S.$1.2 billion. Many sections of roads in the Punjab, Sindh, Balochistan and KPK provinces were destroyed by the floods resulting in an urgent need for reconstruction. The reconstruction requirements of the road sector have been estimated at U.S.$2.07 billion. Pursuant to a Public Sector Development Programme (**PSDP**) for the NHA in 2012-13, 45 major road reconstruction projects were undertaken across all four provinces. The costs of these projects were borne approximately equally by the Government and foreign aid. There are currently 62 ongoing development projects across all four provinces under the PSDP.

- ***Railways****.* Rail was the primary mode of transportation in Pakistan until the 1970s. However, because of the diversion of resources towards the expansion of the road network, the performance and condition of Pakistan Railways declined and its share of inland traffic has reduced significantly. Pakistan Railway is currently enduring its worst crisis since its formation. Since 2007-08, passenger traffic has reduced from 230 trains per day to 92 trains per day, while the number of freight trains has dropped from 96 to just one train per day. As a result, revenue fell 25 per cent whilst working costs increased by 33 per cent in 2012-13.

The Government is taking a number of initiatives for Pakistan Railways to compete effectively in the transport sector. These initiatives include the manufacture of 202 new coaches the receipt of 500 wagons from China, the refurbishment of 400 old coaches and the doubling of tracks from Khanewal to Raiwind (246 km) and from Khanewal to Chichawatni, which have been completed and opened for public traffic.

- ***Civil Aviation***. Pakistan's civil aviation authority promotes and regulates civil aviation activities in Pakistan. A selective open skies policy has been adopted with a number of countries on the basis of bilateral reciprocity. Additionally, the Government has encouraged private sector participation in this sector. Several private airlines including Emirates, Shaheen Air International, FlyDubai, Air Arabia and Air Blue currently code-share with PIA on domestic routes and operate international routes out of Pakistan. The private sector has also participated in the development of airports such as Sialkot International Airport on a "build, own, operate" basis. Pakistan International Airlines (**PIA**) is the primary national carrier and is approximately 93 per cent owned by the Government and Government-controlled entities. PIA is currently undertaking a five-year plan, which includes updating the aircraft in its fleet and widening its international flight network.

- ***Ports and Shipping****.* Karachi Port and Port Mohammed Bin Qasim, both located in Karachi, are the two major ports in Pakistan. Karachi Port handles most dry and liquid cargo. It handled 38.9 million Mt of cargo in 2012-13. Port Qasim, located 50 kilometres south-east of Karachi, is Pakistan's second deep water port and was built in 1973 for overflow traffic from Karachi Port and to handle raw material imports for Pakistan Steel Mills. It has grown into a fully functional port offering facilities for general and bulk cargo and specialised terminals for oil and liquid chemicals and container handling. It caters for approximately 40 per cent of the shipping requirements of Pakistan. Port Qasim handled a volume of 24.8 million Mt of cargo in 2012-13, and saw growth of 3.2 per cent.

  Gwadar is located at the entrance to the Straits of Hormuz, a strategically important region of the world. The Gwadar port project is aimed at attracting transit trade for resource-rich central Asian republics, Afghanistan and western China, as well as the trans-shipment trade of the region. The first phase, comprising three multipurpose berths able to accommodate 70,000 DWT ships, was completed in 2007. The channel and berthing areas were initially dredged to 12.5 metres and were later deepened to 14.5 metres to enable access to larger ships. A concession agreement was initially signed in February 2007 with PSA Gwadar Pte Ltd. The concession agreement was novated in May 2013 to the China Overseas Ports Holding Company. The Gwadar Port Authority, under the Ministry of Ports and Shipping, is responsible for operation and maintenance of the port, while Gwadar Development Authority, established under the Provincial Act of the Balochistan Assembly in 2003, is responsible for building the city infrastructure and implementing the Gwadar Master Plan which includes an airport, a commercial centre, a fishermen's centre, residential development, a gas and oil storage plant and industrial storage. The total cargo handled at the port since opening in 2008 through June 2013 was over five million Mt.

Communications

- ***Postal Services****.* Pakistan's post office is a government entity which provides postal facilities through a network of over 12,000 post offices across the country. Several steps have been taken to modernise the system including the introduction of express postal services, the introduction of an electronic money transfer service and the development of the internal postal system.

- ***Telecommunications****.* The telecommunications sector contributes significantly to Pakistan's economy. The Government has granted high priority to developing Pakistan's telecommunications sector to facilitate sustainable growth in all sections of the economy. Pakistan successfully deregulated its telecommunications sector in 2003-04, leading to increased competition in the fixed line and mobile cellular sectors and resulting in the expansion of telecommunication infrastructure, low tariffs, high revenues, increased tax contributions and employment opportunities. The telecommunications sector experienced positive growth during 2012-13. The total mobile subscribers of five mobile operators were 127.7 million as at 30 June 2013 and 132.2 million as at 30 November 2013. Teledensity was 75.2 per cent as at 30 June 2013, a growth of 4.85 per cent from 2011-12 and 10.0 per cent from 2010-11. Teledensity was 77.1 million as at 30 November 2013. At the same time, increased competition between cellular operators resulted in lower tariffs for consumers. In 2012-13 Mobilink had 29.1 per cent of the market, Telenor 25.2 per cent, Ufone 19.2 per cent, CMPak 16.6 per cent and Warid 9.9 per cent.

Other segments of the telecommunications sector include fixed local loop, wireless local loop and long distance international. Fixed local loop has experienced a rapid decline in subscription levels over recent years, whereas the wireless local loop remains an important part of Pakistan's telecommunications sector as it provides a feasible solution for rural telephony due to the relatively low cost of deployment and maintenance. In 2012-13 Pakistan had 3.35 million wireless local loop subscribers compared to 2.62 million at the end of June 2009.

The following table shows the level of investment in the telecoms sector for the periods stated:

	2008-09	2009-10	2010-11	2011-12	2012-13
			(*U.S.$ million*)		
Cellular	1,229.8	908.8	358.6	211.8	421.5
Long distance international services	276.8	183.1	108.7	13.2	1.9
Local loop	57.4	22.5	18.2	5.0	16.1
Wireless local loop................	82.1	23.0	7.6	7.3	11.9
Total.....................................	**1,646.1**	**1,137.3**	**493.2**	**237.3**	**451.4**

Source: Pakistan Telecommunication Authority

Broadband subscriber growth in Pakistan has been significant. Subscriptions have increased from minimal levels in 2005 to 2.7 million by 30 June 2013, with a penetration rate of 1.52 per cent.

The Government has liberalised investment policies allowing foreign investors in the telecommunications sector to own all of the shares in a company and repatriate all of the profit. Such policies have attracted significant FDI. Between 2008-09 and 2012-13, the telecommunications sector attracted over U.S.$1.2 billion of FDI, almost 12 per cent of the total FDI received in that period. The Government has recently announced the auction of 15-year 3G and 4G licences, the prospectus for which was published in February 2014, as amended in March 2014, from which significant further FDI is expected. The auction will formally start at the end of April 2014 with at least 50 per cent of the proceeds to be paid to the Government by the end of fiscal year 2013-14.

Financial Services

The financial sector in Pakistan consists of commercial banks, development finance institutions (**DFIs**), microfinance institutions (**MFIs**), exchange companies, non-banking finance companies (such as leasing companies, investment banks, discount houses, housing finance companies, venture capital companies, asset management companies, and mutual funds), *modarabas* (which are comparable to mutual funds but are organised to comply with Islamic law), stock exchanges, brokerage firms and insurance companies. The SBP, which is the central bank of Pakistan, supervises banks, development finance institutions and microfinance banks, while the SECP monitors the remaining financial institutions.

At present, the banking industry in Pakistan consists of 38 commercial banks, eight development finance institutions, and eight microfinance banks. The commercial banks comprise five public sector banks, 18 private sector banks, five Islamic commercial banks, six foreign banks (operating through branches) and four specialised banks.

- ***State Bank of Pakistan.*** The SBP was established in 1948. The SBP regulates the monetary and credit systems, determines and implements monetary policy and supervises the banking sector to support the stability of financial institutions. The SBP regulates circulation of the national currency and controls money supply through open market operations, standing deposit and credit facilities (**Corridor**) and through cash reserve and statutory liquidity requirements. Open market operations and Corridor facilities are implemented through repurchase agreements against government securities.

  Under the State Bank of Pakistan Act 1956, the SBP is an autonomous entity supervised by its central board of directors (the **Central Board**) which consists of the governor (who is also the chairman of the Central Board), the Government secretary of finance and eight other directors, including at least one from each province, who is an eminent professional from the field of economics, finance, banking or accountancy and is appointed by the Government. The Central Board has power to regulate the monetary and exchange policy and the credit system of Pakistan. The governor of the SBP, on behalf of the Central Board, has the authority to conduct the business and affairs of the SBP. The governor is appointed for a term of three years, which is extendable for another three-year term.

  The Foreign Exchange Regulation Act 1947 regulates certain payments, dealings in foreign exchange and securities, including the restrictions on payments of foreign exchange and transfers of shares from Pakistan to non-residents, and the import and export of currency and bullion. The SBP has been vested with regulatory control over foreign exchange.

  The SBP is authorised to regulate and supervise banks and DFIs. In 1997, amendments were made to the banking laws granting autonomy to the SBP in relation to regulation of the banking sector. It is the responsibility of the SBP to systematically monitor the performance of every banking company to ensure compliance with banking laws, rules and regulations. In cases in which the management of a bank fails to discharge its responsibility in accordance with the applicable statutory criteria or the banking rules and regulations, or fails to protect the interests of the depositors or advances loans and finance without due regard to the best interests of the bank, the SBP is empowered to take the necessary remedial steps as may be required in accordance with the law, including reporting violations of the banking company's management to the Government every quarter or more frequently if required, along with recommendations for remedial action. The SBP can, among other things, exercise the following powers: (i) prohibit the bank from giving loans, advances and credits; (ii) prohibit the bank from accepting deposits; (iii) cancel the bank's banking licence; (iv) remove the chairman, directors, chief executive or other managerial persons from office; (v) direct the prosecution of directors, the chief executive or other officers; (vi) caution or prohibit the bank against entering into any particular transaction; (vii) require the bank to make changes in management; (viii) wind-up the bank through judicial means; (ix) apply to the Government for an order of moratorium and a plan of reconstruction or amalgamation; or (x) impose penalties. The SBP's regulatory powers extend to the fitness and propriety of sponsors/major shareholders of banks on continuous basis.

  The SBP is empowered to determine statutory liquidity and cash reserve requirements for scheduled banks, DFIs and MFIs. Presently the cash reserve requirement for banks is at 5 per cent for demand liabilities (including time liabilities of less than one-year tenor), subject to a daily minimum of 3 per cent. For DFIs it is 1 per cent of their demand liabilities, and for MFIs it is 5 per cent of total demand deposits. In addition, the SBP has stipulated that banks have to maintain a statutory liquidity requirement of 19 per cent of their demand liabilities (including time liabilities of less than one year-tenor). Similarly, DFIs and MFIs are required to maintain a statutory liquidity requirement of 15 per cent and 10 per cent, respectively, of their specified liabilities. The SBP has established capital adequacy requirements for banks based on the Basel capital accord. All the banks are required to maintain a capital adequacy ratio (**CAR**) of 10 per cent which will be gradually increased to 12.5 per cent by 31 December 2019 in line with the Basel III framework, which is being implemented in Pakistan. The tier 1 capital requirement has also been raised from 4 per cent to 6.5 per cent with effect from 31 December 2013 in line with Basel III instructions. Banks are required to hold minimum paid-up capital (net of losses) of Rupees 10 billion from 31 December 2013.

- ***Commercial Banking Sector****.* The overall performance of the banking sector, which dominates the financial sector of Pakistan, has remained strong through Pakistan's macroeconomic challenges and structural issues. The banking sector grew at an annual average growth rate of 13 per cent for the period 2008-09 to 2012-13. Its asset base was Rupees 10.5 trillion as at 31 December 2013, profits before tax for 2012-13 were Rupees 165 billion and solvency of the system remained strong, with CAR at 14.9 per cent as of 31 December 2013. The banking sector of Pakistan has attracted international banks and international investors in recent years. The Government estimates that over 50 per cent of commercial banking assets are owned by international banks controlled by foreign investors. The commercial banking sector comprises both locally incorporated Pakistani and branch operations of foreign commercial banks. There are also government-owned specialised banks which provide finance to agriculture, industry and co-operatives. Joint ventures between the Government of Pakistan and governments of other countries, working as DFIs, provide financial assistance to promote investment in industry, agriculture and trade. Foreign financial institutions/entities/strategic investors, either directly or in collaboration with local partners or sponsors, can conduct business in Pakistan as a locally incorporated company, in general, with a maximum foreign ownership of 49 per cent. Foreign banks also are allowed to conduct banking business in the form of a wholly-owned locally incorporated subsidiary or as a branch of such foreign bank if: (i) the foreign bank has a global tier-1 paid-up capital of U.S.$5 billion or more; or (ii) the foreign bank is from a country which belongs to regional groups or associations of which Pakistan is a member. In recent years, certain foreign banks with a local branch in Pakistan have acquired local banks and set-up wholly-owned local subsidiaries.

- ***Non-bank Finance Companies.*** Other entities within Pakistan's financial sector include investment banks, a state-owned life insurance company (the State Life Insurance Corporation), private life insurance companies, private general insurance companies, housing finance companies, leasing companies, asset management companies, and *modarabas.*

- ***Islamic Banking***. Article 38(f) of the Constitution of the Islamic Republic of Pakistan 1973 provides that the State shall eliminate *riba* (the payment of interest) as early as possible. Currently, the law in Pakistan does not prohibit the payment of interest pursuant to a contract to borrow money, such as the Notes. See "*Risk Factors – Factors that may affect the Issuer's ability to fulfil its obligations under the Notes – Shariat Law Position on the Payment of Interest*".

  Since 2002, the SBP has actively promoted Islamic banking in parallel with conventional banking by:

  - allowing the opening of fully-fledged Islamic commercial banks in the private sector;
  - allowing existing banks to establish Islamic banking subsidiaries; and
  - allowing existing banks to open separate branches for Islamic banking.

  In recognition of the need for a separate department for the regulation and promotion of the Islamic banking sector, the Islamic Banking Department was established in the SBP in 2003. The SBP has adopted various initiatives to promote and develop the Islamic banking industry in Pakistan including:

  - the adoption of *Shari'ah* standards;
  - issuing criteria for the conversion of conventional banking branches into Islamic banking branches;
  - working with the Islamic Financial Services Board on various supervisory and regulatory aspects;

- introducing a three-year Government of Pakistan Ijara Sukuk to provide investment assets to Islamic institutions and develop the Islamic money market; and

- actively participating in development of guidance notes for stress - testing of Islamic financial institutions and liquidity risk management.

As a result of these initiatives, Islamic banking in Pakistan has grown significantly since its launch in 2002. The total assets of Islamic banks in Pakistan were Rupees 1,014 billion at December 2013, compared to Rupees 837 billion in December 2012, representing growth of 21.2 per cent. The deposits of Islamic banks were Rupees 926 billion in December 2013, or 9.5 per cent of total bank deposits. The financing and investment portfolios of Islamic banks grew to Rupees 315 billion and Rupees 394 billion, respectively, by 31 December 2013. Islamic finance in Pakistan has maintained high levels of growth since 2002, indicating the increasing level of acceptance of Islamic banking as a viable alternative to conventional banking. The industry also increased its share of deposits to 9.5 per cent of the total banking deposits and its share of assets to 11.2 per cent of total banking assets in 2013. The number of Islamic banking institutions also increased to 19 by December 2013. Five are fully fledged Islamic banks and 14 are conventional banks which have Islamic banking branches. The Government expects this to increase; one additional bank has been granted approval to start Islamic banking operations and another has been granted approval for the establishing of an Islamic banking subsidiary.

In February 2014, the SBP published a detailed five-year plan to further promote Islamic finance through a number of legislative changes, product incentives, tax amendments and instructions to market participants. The five-year plan aims to double the branch network of Islamic banks (currently approximately 1,200) and increase the market share of Islamic banking in Pakistan to 15 per cent of total bank deposits (from its current 10 per cent) by 2018. The SBP intends to require Islamic banks to increase financing to Pakistan's agricultural sector and to small enterprises by 2015 by allocating at least 5 per cent of deposits and 10 per cent of financing to these two sectors, respectively.

- ***Government Bond Market.*** The SBP has recently implemented measures for the development of the Government bond market including:

  - an Electronic Bond Trading platform (EBND-Bloomberg) introduced with the objective of increasing efficiency in secondary market trading of government securities and providing a central platform where investors can easily access marketable securities, including market treasury bills, Pakistan investment bonds (**PIBs**) and Government of Pakistan Ijara sukuk. This system also provides international investors an opportunity to access the Pakistan's financial markets;

  - rules governing the primary dealer system were introduced to enhance its role and obligations towards the development of the government's securities market;

  - the process of investing in government securities was streamlined through changes to investor's portfolio of securities (**IPS**) accounts so that it is mandatory for each primary dealer to offer IPS accounts to those customers maintaining Pakistan Rupee accounts with them;

  - since February 2013, the auction of market treasury bills and PIBs has been conducted online via Bloomberg's auction system. This automated the primary auction process so as to reduce operational risk and to align Pakistan with other countries conducting similar auction processes; and

  - the SBP now permits trading of government securities on stock exchanges in addition to the existing OTC markets (Bloomberg, Reuters and money market brokers).

- ***Corporate Bonds**.* Banks are permitted to enter the domestic capital market as issuers of term finance certificates (**TFCs**) and can raise funds from the capital markets in the form of rated and listed subordinated debt instruments, which can also be included in the banks' supplementary capital. To be eligible for inclusion in supplementary capital, the instrument must be fully paid-up, unsecured, subordinated as to payment of principal and profit to all other indebtedness of the bank and not redeemable before maturity without prior approval by the SBP. The market for these long-term instruments provides an additional opportunity to match long-term assets, such as mortgages and project finance.

Pakistan's Stock Exchanges

There are three stock exchanges in Pakistan: the Karachi Stock Exchange (**KSE**), the Lahore Stock Exchange (**LSE**) and the Islamabad Stock Exchange (**ISE**). The KSE opened in 1949, the LSE opened in 1970 and the ISE opened in 1993. These stock exchanges are registered under the Securities and Exchange Ordinance 1969. Virtually all of the companies listed on the LSE and the ISE are also listed on the KSE.

The following table sets out the profile of the stock exchanges for the periods stated:

	2008-09	2009-10	2010-11	2011-12	2012-13
KARACHI STOCK EXCHANGE					
(i) Total listed companies.................	651	652	639	591	569
(ii) New companies listed.................	8	8	1	3	4
(iii) Funds mobilised (*Rupees billion*)	45.0	111.8	31.0	115.1	46.1
(iv) Total turnover of shares (*Rupees billion*)	28.3	42.7	28.0	38.1	53.4
LAHORE STOCK EXCHANGE					
(i) Total listed companies.................	511	510	496	459	440
(ii) New companies listed.................	9	25	9	2	2
(iii) Funds mobilised (*Rupees billion*)	32.8	67.5	18.1	13.3	7.6
(iv) Total turnover of shares (*Rupees billion*)	2.7	3.4	1.1	0.9	0.9
ISLAMABAD STOCK EXCHANGE					
(i) Total listed companies.................	261	244	236	218	210
(ii) New companies listed.................	15	2	-	-	1
(iii) Funds mobilised (*Rupees billion*)	24.8	76.6	17.8	12.8	5.1
(iv) Total turnover of shares (*Rupees billion*)	0.3	0.2	0.04	0.03	0.03

Source: Securities and Exchange Commission of Pakistan

Both debt and equity securities are traded on the KSE. Corporate debt securities are issued through TFCs, which normally carry a five-year maturity. Trading of Pakistan Government debt securities on the KSE commenced in February 2014.

The name of the National Commodity Exchange Limited was changed to Pakistan Mercantile Exchange Limited (**PMEX**) in March 2011. PMEX was set up as Pakistan's first technology-driven, demutualised and on-line commodity futures exchange. The PMEX product portfolio is continuously renewed to cater for the hedging and speculative needs of various investor groups. PMEX currently offers a variety of contracts in agriculture, metals and financial futures which include the commodities of gold, silver, rice, wheat, cotton, sugar, palm oil, crude oil and the Karachi Inter Bank Offer Rate (**KIBOR**).

Three indices are used to measure the performance of the KSE: the Karachi Stock Exchange-100 Index (the **KSE Index**) and the KSE-30 Index (the **KSE-30**), both produced by the KSE, and the SBP Index of Share Prices (the **General Index**), produced by the SBP. The KSE Index, the most widely accepted stock index in Pakistan, is published daily, whereas the General Index is published on a weekly basis. The General Index is an all-share index, while the KSE Index is based on 100 representative securities. The KSE Index uses a base date of 1 November 1991, when it was set at 1,000 and is a market capitalisation-weighted, broad-based, total-return index. The KSE-30 is a free float index based on the proportion of shares readily available for trading to the total shares issued, excluding locked-in shares.

The following table shows the movements in the KSE Index since 2008, together with its level as of December 31 in each year from 2009 to 2013.

	2009	2010	2011	2012	2013
			(*KSE Index*)		
High....................	9,845.73	12,031.46	12,681.94	16,943.19	25,579.33
Low.....................	4,815.34	9,229.60	10,842.26	10,909.12	16,107.89
Year end............	9,386.92	12,022.46	11,347.66	16,905.33	25,261.14

Source: Reuters, Karachi Stock Exchange

Securities Market Reforms

The SECP was established under the Securities and Exchange Commission of Pakistan Act 1997 and became operational on 1 January 1999. The SECP regulates the capital markets, corporate sector, non-bank financial companies sector and the insurance sector.

The SECP has been actively pursuing a capital market reform programme to develop a modern and efficient system. The SECP has introduced several reforms to strengthen risk management at the stock exchanges, increase transparency, improve governance, enhance investor protection and improve market efficiency, including:

- the Code of Corporate Governance, introduced in March 2002, and incorporated in the listing regulations of Pakistan's stock exchanges. It is based on internationally recognised principles and emphasises openness and transparency in the reporting of corporate affairs. The code was revised in 2012 to raise standards of governance and to improve compliance with the rules;

- the Government establishment of the Pakistan Institute of Corporate Governance in 2005 to strengthen corporate governance standards;

- the successful corporatisation and demutualisation of the stock exchanges. The demutualisation addressed the conflicts that existed previously by segregating the commercial and regulatory functions of the stock exchanges and enhancing governance and transparency;

- the introduction of a Bonds Automated Trading System in line with international standards to provide transparent and efficient price discovery through an automated trading platform for debt market securities at the stock exchanges;

- the introduction of an Automation of Securities Settlement Project at the Central Depository Company of Pakistan, under which book-entry securities are automatically transferred from the respective seller's account to the buyer's account, instead of being routed through the member's main account;

- the development of regulations for the issue of commercial paper by companies with a high credit rating and for the issue of Sukuk;

- a code of conduct for credit rating agencies in January 2014;

- on the Islamic capital market side, SECP has created the SAB and is currently working on formulation of regulations for issue of Sukuk. In January 2014, the SECP approved the first domestic listed Sukuk issuance by K-Electric Limited (formerly the Karachi Electric Supply Company) amounting to Rupees 6 billion;

- a comprehensive policy has been framed to deal with companies violating listing regulations and other securities market laws; and

- the concept of market making has been introduced at the stock exchanges, in line with international best practice, to promote liquidity in the capital markets.

Financial Sector Regulation

Pakistan over the years has taken measures to enhance the banking sector including:

- strengthening the supervision of the banking system and promote consolidation of financial institutions;

- continuously improving the regulatory framework through issuance and updates of guidelines and standards on corporate governance, risk management, consumer protection and financial inclusion, as well as improving the supervision of banks and cooperation with other regulators on the supervision of financial conglomerates;

- strengthening capital requirements of financial institutions and aligning the requirements with the Basel standards (including implementation of Basel-III standard with effect from 31 December 2013);

- promulgation of an anti-money laundering law granting several government agencies the authority to investigate and prosecute incidents of money laundering or terrorist financing;

- increasing growth in Islamic commercial banks, Islamic banking subsidiaries by conventional commercial bank(s) and standalone Islamic banking branches of existing commercial banks;

- developing a regulatory framework for the establishment of MFIs and the provision of credit to small and medium-sized enterprises;

- the SBP has partnered with the U.K. Department for International Development to launch a "financial inclusion program" to tackle financial exclusion among the poor and marginalised groups through a variety of supply side funds and facilities;

- launched a nationwide financial literacy programme to tackle the lack of financial literacy in Pakistan, which has historically been a major constraint on advancing the financial sector;

- allowing banks to enter the domestic capital markets as issuers of TFCs;

- creating special provisions for refinancing by banks at concessional rates; and

- requiring banks to link their corporate lending products with KIBOR.

Financial derivatives transactions may only be undertaken by banks which have been specifically authorised by the SBP to act either as an authorised derivative dealer (**ADD**) or as a non-market maker financial institution (**NMI**) in accordance with the Financial Derivatives Business Regulations 2004 issued by the SBP. The primary distinction between ADDs and NMIs is that NMIs must cover their positions on a back-to-back basis from an ADD, whereas ADDs are allowed to take market risk on their books. At present, the regulations permit the following derivative transactions: foreign currency options, forward rate agreements and interest rate swaps. Any financial institution conducting unauthorised derivative transactions as an NMI or ADD is liable for punitive actions under the Banking Companies Ordinance 1962, including the cancellation of its licence.

Anti-Corruption and Anti-Money Laundering

Pakistan ranks high on the published lists of countries with high levels of corruption. The Government has taken measures to reduce corruption in the public and private sectors, including the enactment of the Anti-Money Laundering Act 2010, the establishment of a financial monitoring unit (**FMU**) to monitor suspicious financial transactions and to investigate financial crime, preventive measures in the domestic financial sector and participation in regional and global efforts against money laundering. The Anti-Money Laundering Act 2010 created a new crime of money-laundering which is punishable with imprisonment of up to ten years, a fine of up to Rupees 1 million and a further potential fine of Rupees 10 million and forfeiture of any property involved in the money laundering activities. It imposes an obligation on financial institutions to report suspicious transactions to FMU so as to ensure that money-laundering and terrorist financing is deterred and punished.

The NAB was established under the National Accountability Ordinance 1999 (**NAO**) and is mandated to combat corruption and money laundering, using its powers of investigation and prosecution. The NAO prohibits and prescribes penalties for corrupt practices, grants powers to the law enforcement agencies and established the Accountability Courts to hear specific corruption cases. The launch of the National Anti-Corruption Strategy in 2002 broadened NAB's role to include anti-corruption awareness and prevention alongside its enforcement role. Partly due to its high levels of autonomy, NAB has had significant success in the prosecution of corruption. In 2013, its conviction rate was 52.9 per cent compared to 47.5 per cent in 2012 and 47.5 per cent in 2011. To improve its standards, NAB has recently increased the number of investigators and is developing closer relationships with its international counterparts.

As a further step to reduce corruption, the Pakistan ratified the United Nations Convention against Corruption in August 2007.

Despite the progress and various reform efforts, Pakistan continues to take steps to address corruption. See "*Risk Factors – Failure to adequately address actual and perceived risks of corruption may adversely affect Pakistan's economy and ability to attract foreign direct investment*".

Pakistan has taken various anti-money laundering and counter-terrorist financing measures. Statutory measures include:

- amendments to the Anti Terrorism Act 1997 to bring Pakistan's terrorist financing regime fully in line with the standards of the Financial Action Task Force (an intergovernmental body developing policies to combat money laundering and terrorist financing); and

- the Anti-Money Laundering Act of 2010 provides for the crime of money laundering which is punishable with imprisonment and fines, as well as the forfeiture of relevant property. The Act also obligates financial institutions to report suspicious transactions to the FMU which analyses such cases and refers them to law enforcement agencies.

Pakistan has also taken preventive measures, such as:

- SBP measures to prevent the use of banking channels for money laundering and terrorist financing. Anti-money laundering and counter-terrorist financing regulations issued by the SBP implement preventive measures to accord with international standards, and these regulations are enforced through a systematic process of on-site inspections and off-site surveillance;

- anti-money laundering and counter-terrorist financing regulations were further strengthened in 2012 by the requirement to ensure record retention for ten years instead of five years, review risk assessment of new products and services, require extended categories of identity documents, enhance controls on online transfers, expand due diligence requirements on close associates or family members of politically exposed persons, define responsibilities of institutions in wire transfers/correspondent banking and link customers' profiles with automated transaction monitoring systems. The regulations require due diligence at the time of hiring employees and require banks to provide adequate training to employees. Stringent requirements for the accounts of non-governmental organisations, non-profit organisations and charities have also been introduced; and

- the SBP has issued comprehensive guidelines on taking a risk based approach and requires banks to improve their systems in line with best standards and practices as propounded by the Financial Action Task Force Recommendations and Basel Core Principles. The guidelines advise banks to apply a risk based approach in their relationships and transactions taking into account factors like customer type, products, delivery channels and location. The concept of customers risk profiling based on scenario-based ranking of customers has been developed along with the implementation of red alerts to trigger scrutiny of accounts and transactions.

Non-bank financial institutions in Pakistan, as regulated by the SECP, are subject to similar anti-money laundering and counter-terrorist financing requirements. The Asia Pacific Group on Money Laundering (**APG**) conducted a mutual evaluation of Pakistan in 2009 to assess the overall efficacy of its legal, law enforcement and financial regulatory regime to counter money laundering and terrorist financing. The evaluation report was adopted after extensive deliberations at the annual meeting of the APG in July 2009. The SBP actively contributed during and after the evaluation. All the stakeholders, including the SBP, have taken necessary measures in their respective areas in response to the APG mutual evaluation. The SBP has been implementing relevant U.N. Security Council resolutions in Pakistan.

Agricultural Sector

Agriculture continues to play a central role in Pakistan's economy. It is the second largest sector, accounting for over 21.4 per cent of GDP in 2012-13, and is the largest employer, employing 45 per cent of Pakistan's total labour force. Nearly 66 per cent of Pakistan's population resides in rural areas and is directly or indirectly dependent on agriculture for their livelihood. The agricultural sector also contributes to the development of other sectors as a supplier of raw materials to industry (particularly cotton which constituted 1.5 per cent of GDP in 2012-13), as well as providing a market for industrial products. The agricultural sector is the main source of Pakistan's foreign exchange earnings.

Over the past three years, agriculture has grown at rates varying between 2.0 per cent per annum and 3.5 per cent per annum, respectively, of contribution to GDP (at constant factor cost 2005-06). Growth in 2012-13 was 3.3 per cent. The Government estimates that the agriculture sector will grow by 3.8 per cent in 2013-14 on the basis of expected contributions of important crops (3.1 per cent growth), other crops (4.5 per cent growth), cotton ginning (6.1 per cent growth), livestock (3.9 per cent growth), fishing (2.0 per cent growth) and forestry (2.0 per cent growth). The fluctuation in overall agriculture has been largely dependent on contribution from crops, which include both "important crops" (wheat, maize, rice, sugar and cotton) and other crops.

The trend in agriculture growth as a contribution to GDP (at constant factor cost 2005-06) from 2008-09 to 2012-13 and the Government targets for 2013-14 are set out below:

	2008-09	**2009-10**	**2010-11**	**2011-12**	**2012-13[(1)]**	**2013-14[(2)]**
				(*% growth*)		
Agriculture..........................	3.5	0.2	2.0	3.5	3.3	3.8
Crops................................	5.2	(4.2)	1.0	2.9	3.2	3.7
Important crops............	8.4	(3.7)	1.5	7.4	2.3	3.1
Other crops..................	0.5	(7.2)	2.3	(7.7)	6.7	4.5
Cotton ginning..............	1.3	7.3	(8.5)	13.8	(2.9)	6.1
Livestock...........................	2.2	3.8	3.4	3.9	3.7	3.9
Fishery..............................	2.6	1.4	(15.2)	3.8	0.7	2.0
Forestry.............................	2.6	(0.1)	4.8	1.7	0.1	2.0

(1) Provisional pending National Assembly approval in May 2014 of Pakistan's economic data for 2012-13.
(2) Government target.

Source: Ministry of Finance

Livestock is the single largest contributor to the overall agricultural sector, representing 55.4 per cent in 2012-13. Population growth, increased per capita income and export revenue is contributing to demand for livestock and livestock products. The Government has increased public sector investment and has initiated development projects for strengthening livestock services for improved disease diagnosis and control, milk and meat production, breed improvement, animal husbandry and management procedures in Pakistan.

There are two principal crop seasons in Pakistan, namely the "*Kharif*" - which begins with sowing in April-June and ends with harvesting in October-December - and the "*Rabi*", which begins in October-December and ends in April-May. Rice, sugarcane, cotton, maize, mung, mash, bajra and jowar are "*Kharif*" crops, while wheat, gram, lentil (*masoor*), tobacco, rapeseed, barley and mustard are "*Rabi*" crops.

Unfavourable weather conditions can negatively affect growth rates year-on-year and result in a decrease in planted hectorage. Cotton, as a non-food cash crop, is the main cash crop and contributes significantly to Pakistan's foreign exchange earnings. Pakistan's economy depends heavily on the cotton crop, which significantly contributes raw materials to Pakistan's textile industry, such as cotton lint as an export item. Rice and sugar are a major source of foreign exchange earnings. Rice and wheat constitute an essential part of the diet of the Pakistani population and both have experienced positive growth in recent years.

Important crops accounted for 25.2 per cent of the agricultural sector in 2012-13. The following table sets out information regarding the production volumes of Pakistan's important crops for the periods indicated:

	2008-09	**2009-10**	**2010-11**	**2011-12**	**2012-13[(1)]**	**2011-12**	**2012-13[(1)]**
			(*thousand tons, unless otherwise stated*)			**(*% change*)**	
Cotton (thousand bales)	11,819	12,914	11,460	13,595	13,026	18.6	(4.2)
Sugarcane.............	50,045	49,373	55,309	58,397	62,472	5.6	7.0
Rice........................	6,952	6,883	4,823	6,160	5,541	27.7	(10.0)
Maize	3,593	3,261	3,707	4,338	4,631	17.0	6.8
Wheat	24,033	23,311	25,214	23,473	24,231	(6.9)	3.2

(1) Provisional (July to March).

Source: Pakistan Bureau of Statistics

Food security concerns in Pakistan are focused on wheat and wheat flour availability. The Ministry of National Food Security and Research of Pakistan is working to formulate a food and nutrition security policy at both federal and provincial levels for launch in 2013-14, which aims to secure water supply and to grow agricultural exports. The policy is being discussed at federal and provincial levels, along with the private sector and various development partners.

The Government is also ensuring the timely availability of financial resources to farmers for purchasing farm equipment in time to sow, and has substantially increased the amount of institutional credit for agriculture since assuming office in May 2013.

Industrial Sector

Pakistan's industrial sector is the third largest economic sector of its economy, accounting for 20.9 per cent of GDP in 2012-13. It has three main sub-components: (i) Large-Scale Manufacturing (**LSM**); (ii) Small Scale Manufacturing; and (iii) Slaughtering.

The industrial sector generally has been adversely affected by the energy crisis in Pakistan. See "*Energy in Pakistan"* below. Although LSM, which typically accounts for approximately 11 per cent of GDP, has in recent years been significantly affected by the energy crisis, during the first six months of 2013-14 it grew by 6.8 per cent and in 2012-13 the industrial sector as a whole grew by 3.5 per cent. During the first quarter of 2013-14, the industrial sector recorded growth of 5.2 per cent compared to 3.1 per cent in the first quarter of 2012-13. The Government expects to realise further positive LSM growth through the end of the 2013-14 fiscal year and beyond. The first six months of 2013-14 recorded increased imports in textiles, construction materials and electric machinery. Additional growth in exports is expected to follow from the GSP+ programme. See "– *Structural Economic Reforms – Trade Reforms*".

The following table sets out the growth of several major LSM groups in 2012-13 compared to 2011-12, as well as for the first six months of 2012-13 and 2013-14:

Sector	Share of LSM Sector Output compared to Total Industrial Sector Output 2012-13	2011-12	2012-13	First Six Months 2012-13(1)	First Six Months 2013-14(2)
	(%)			(*% growth*)	
Textile	20.91	0.26	1.61	0.20	1.73
Food, beverages and tobacco	12.37	6.41	9.30	3.52	18.17
Coke and petroleum products	5.51	(6.73)	16.18	10.43	8.31
Pharmaceuticals	3.62	6.98	10.01	6.47	0.55
Chemicals	1.72	(2.66)	(0.52)	(0.76)	5.27
Automobiles	4.61	3.31	(12.46)	(8.20)	(2.29)
Iron and steel products	5.39	(23.30)	8.68	19.30	2.32
Fertilizers	4.44	0.08	(4.02)	(10.01)	28.75
Electronics	1.96	(6.85)	(5.29)	(6.41)	12.20
Leather products	0.86	(0.50)	0.65	(6.59)	9.61
Paper and board	2.31	19.19	18.40	26.59	17.50
Engineering products	0.4	(12.42)	(15.55)	(12.65)	(2.84)
Rubber products	0.26	(23.21)	11.79	28.45	5.96
Non-metallic mineral products	5.36	2.63	5.18	4.50	1.04
Wood products	0.59	(4.78)	(8.41)	(20.97)	(15.45)

(1) Provisional pending National Assembly approval in May 2014 of Pakistan's economic data for 2012-13.
(2) Provisional pending National Assembly approval in May 2015 of Pakistan's economic data for 2013-14.

Source: Ministry of Finance

The textiles sub-sector occupies a pivotal position in Pakistan's economy, accounting for 8 per cent of GDP with significant potential for growth. It has the most intensive backward and forward linkages within the wider economic chain compared to any other sector, linking agriculture through industry to exports. Textiles contributed approximately 24 per cent of the industrial sector's value-added output, employing 40 per cent of industrial sector's work force, using 40 per cent of bank credit given to the industrial sector and accounting for nearly 53.3 per cent of Pakistan's exports. In addition, this sector provides a livelihood to more than ten million farming families.

According to the International Cotton Advisory Committee, Pakistan is the fourth largest producer of cotton and third largest consumer of cotton in the world. In addition, Pakistan is the world's second largest cotton yarn exporter and third largest cotton cloth manufacturer and exporter. However, Pakistan is fifteenth in terms of international trade, as some of the advantage of Pakistan's raw materials is lost in low value added semi-manufactured exports.

Unlike some other textiles and clothing producing countries, Pakistan is unique as it has a self-reliant production chain. From cotton growing to ginning, weaving, processing and finishing, and from fabrics to home textiles and apparel, all have links in the textiles and clothing value chain which have been developed by Pakistan's own industry.

Pakistan approved its first ever five-year textile policy in 2009 for various short-to-long-term initiatives aimed at sustainability of textile value chain.

Recently, the European Union accorded GSP+ status to Pakistan. The scheme is for ten years and, under the terms of this scheme, Pakistan's entire non-value-add textile value chain will attract zero custom duty in the EU market. The Government expects GSP+ status will incrementally increase exports from Pakistan to EU countries by approximately U.S.$700 to 1,200 million in the textile sector. See "– *Structural Economic Reforms – Trade Reforms*".

Positive growth has been recorded in the textile related sector of LSM of approximately 1.7 per cent in the first six months of 2013-14, as compared to 0.2 per cent in first six months of 2012-13. In addition, imports of textile machinery and exports of textile products have increased.

The following table sets out details of the export of textiles by Pakistan for the years stated:

	2009	2010	2011	2012
		(*U.S.$ billion*)		
World textile	231.0	281.2	332.2	315.7
World clothing	301.5	330.2	383.5	372.9
Total	**532.5**	**611.4**	**715.7**	**688.6**
Pakistan textile..........................	6.7	8.2	9.6	9.2
Pakistan clothing.......................	2.9	3.4	4.0	3.7
Total	**9.6**	**11.6**	**13.6**	**12.9**
% of World trade	1.8	1.9	1.9	1.9

Source: U.N. Comtrade (*calendar year*)

Energy in Pakistan

Pakistan has been facing a significant energy shortage in recent years as the demand for energy exceeds available supplies, including as a result of circular debt to private energy providers reducing power generated by independent power providers (see "– *Circular Debt*"). Further, Pakistan's energy demands have exceeded what can be provided from domestically produced oil and natural gas, resulting in a requirement to import increasingly expensive oil and an increased cost of power generation. Power shortages have had a consequent adverse effect on the Pakistani economy. It is estimated that the cost of the energy shortfall to the economy is 2.5 per cent of GDP (U.S.$5.6 billion a year), loss of employment (400,000 jobs) and U.S.$14 billion (2008-09 to 2012-13) to subsidise consumers. There will be growing energy demand in the coming years with increasing urbanisation (at an annual average growth rate of 3.1 per cent), rural electrification and increasing industrialisation.

In order to improve energy supplies, the Government is aggressively pursuing policies of:

- increasing domestic energy supplies including by attracting foreign investment;
- adding further public sector power generation plants;
- completing existing hydro-electric power projects;
- upgrading existing power generation plants;
- commissioning coal-fired power generation plants and converting oil based plants to coal to reduce costs of generation;
- diversifying imports to include natural gas from a number of countries (primarily Qatar), coal (primarily from Indonesia and Australia) and electricity (principally from the central Asia republics, Iran and India);

- reducing power transmission losses through the implementation of technical and administrative measures to enhance operational efficiency;

- encouraging efficiencies through fuel substitution by conversion to cheaper fuels like coal and by promoting renewable energy through solar, wind, biomass and bagasse;

- rationalisation of the tariff differential subsidies to affluent classes, retargeting subsidies for the poorest and bringing tariffs to cost recovery level;

- installing plants on hydro-electric sources;

- controlling theft of power;

- controlling the law and order situation in the country; and

- reducing the time taken for determination of tariff for a fiscal year.

The following table sets forth Pakistan's installed capacity, dependable capacity and peak supply of energy for the years stated:

	2010	2011	2012	2013	2014
			(*MW*)		
Installed capacity.................	18,167	20,681	21,021	20,415	21,350
Dependable capacity[(2)]	16,311	18,611	18,987	18,393	19,335
Peak supply.........................	13,400	13,100	14,500	15,062	16,170[(1)]

(1) As of March 2014.

(2) Dependable capacity refers to Pakistan's energy system's ability to carry power for the time-intervals and periods required. Dependable capacity is determined on the basis of capability, operating power and the portion of the load to be supplied, less normal energy station loads.

Source: Ministry of Water and Power

The Government launched its National Power Policy in 2013 to address the energy shortfall and to promote sustainable increases in the energy supply. Several initiatives have been implemented, including the restriction of consumer subsidies, the clearance of Rupees 480 billion of payment arrears, improving prosecution of electricity theft and the increase of base tariffs to reflect actual fuel prices, which has added 1,700 MW to the system since May 2013. The Government continues to develop power projects to increase the power generation capacity and diversify the power generation mix. See "– *Power Sector Reform*" below.

Circular Debt**.** Circular debt refers to the debt created when the power system (including the state energy purchaser) fails to pay the private power firms, including oil companies, gas companies, independent power producers and WAPDA. There are several factors which contribute to the build-up of circular debt, including: (i) the difference between the costs of generating and providing electricity and the revenue generated by the bills to consumers; (ii) the shortfall in the collection of billed amounts; (iii) higher losses than allowed by NEPRA in tariff; (iv) delay in tariff determination by NEPRA; (v) inadequate allocation and delay in payment of subsidy by the Government; and (vi) other costs incurred but not allowed under the NEPRA tariff. This revenue shortfall cascades through the entire energy supply chain – from electricity generators to fuel suppliers, refiners and producers – resulting in a shortage of fuel supply to the power generating companies, a reduction in power generated by independent power producers and an increase in load shedding.

Circular debt was estimated to be Rupees 503 billion as of 31 May 2013. In recent years it has significantly constrained the availability of electricity and slowed Pakistan's economic growth. The Government took aggressive measures to clear circular debt on assuming office in 2013 and efforts are continuing throughout the current 2013-14 fiscal year. To date, the Government has reduced the stock and build-up of circular debt significantly and added 1,700 MW of electricity to the national grid, easing load shedding considerably in Pakistan.

Power Sector reform. The Government is fully committed to resolve the energy crisis in Pakistan. Since the elections in May 2013, the Government has begun to take measures in the power sector. Payables of power sector entities to both the independent power producers and public sector power entities amounting to Rupees 480 billion as at 31 May 2013 have been fully cleared. The Government has rationalised tariffs, reducing the gap from Rupees 5.84 per unit to Rupees 3.03 per unit, thereby bringing financial sustainability to the sector. In addition to the problem of circular debt, the Government is also working towards easing the burden on the national exchequer caused by the subsidy to power consumers by moving towards better cost recovery.

The National Power Policy 2013 sets out the Government's plan to overcome the present energy crisis and meet the future power needs of the country. The aim is to provide affordable energy throughout the country by creating an efficient generation, transmission and distribution system by: (i) eliminating load shedding by 2017; (ii) decreasing the cost of generation from 12c/unit to less than 10c/unit by 2017; (iii) decreasing transmission losses from 25 per cent to less than 16 per cent by 2017; (iv) improving payment collection to greater than 95 per cent by 2017; and (v) decreasing the current supply-demand gap from 4500-5000 MW to zero by 2017.

The National Power Policy plan involves the movement of power generation from high cost sources (such as oil at over U.S.$100 a barrel) to cheaper locally-sourced resources (including hydro-electric, coal and renewable energy sources) by 2018, the alignment and improvement of governance amongst the ministries involved in the energy sector and the implementation of legislation to deter pilferages in the system and encourage efficiency and conservation.

The Government expects that by the end of its five-year term, Pakistan will have a power surplus which could be regionally traded, that costs will be significantly reduced and that efficiency improvements in transmission and distribution will decrease overall demands on the power sector.

Failure to adequately address the significant deficiencies in Pakistan's power generation, transmission and distribution infrastructure could negatively impact GDP growth, economic development and the Issuer's ability to meet its obligations under the Notes, although Pakistan has never defaulted on its sovereign financial obligations.

Power Projects. The Government aims to achieve a less oil-dependent power generation mix by developing other energy resources, particularly hydro-electric, nuclear and coal. The Executive Committee of the National Economic Council recently approved four development projects (K-II Nuclear Project, K-III Nuclear Project, Nandipur and Neelum-Jhelum hydro-electric project) having a combined generation capacity of 3,594 MW and adding to the national grid. The Government is committed to arrange financing for these projects and monitor their development regularly in order to complete them according to schedule.

The following table sets out the details of the recently approved power projects and other projects that have financial arrangements in place:

Project	**Net Capacity (*MW*)**	**Source**	**Estimated Cost (*U.S.$ million*)**	**Scheduled Completion**
K-II and K-III Nuclear Projects	2,200	Nuclear	4,000	2021
Nandipur	425	Hydro-electric	532	2014
Neelum-Jhelum Hydro Electric Project	969	Hydro-electric	2,570	2015
Tarbela IV extension	1,410	Hydro-electric	700	2017
Tarbela V extension	1,250	Hydro-electric	Under estimation	2018
Uch II	404	Gas	Private investment	2014

Project	Net Capacity (*MW*)	Source	Estimated Cost (*U.S.$ million*)	Scheduled Completion
Khyal Khawar	126	Hydro-electric	125	2014
Dasu (Phase I)	2,160	Hydro-electric	8,500	2017
Jamshoro (two power plants)	1,320	Coal	1,700	2018
DuberKhawar	130	Hydro-electric	153	2014
Jabban hydro power....................................	22	Hydro-electric	33	2015
KurramTangi Dam......................................	96	Hydro-electric	95	2016
Diamer Bhasha Dam..................................	4,500	Hydro-electric	13,800	2023
Total	**15,012**			

Source: Ministry of Finance

Ensuring gas prioritisation to the power sector is expected to deliver savings in the cost of production and will utilise existing capacity more cost effectively. To improve supply from publically owned plants, regular efficiency testing of GENCOs was initiated by the Government in September 2013. Rehabilitation of GENCOs by the end of 2014 is likely to add 500 MW to the capacity with 1 to 2 per cent improvement in efficiency.

Energy Supply and Consumption. The following table sets out the primary energy supply and per capita availability for the periods stated:

	2008-09	2009-10	2010-11	2011-12	2012-13
Energy supply					
MTOE	62.56	63.09	64.52	64.73	64.63
Change (*%*)....................................	(0.56)	0.83	2.27	0.32	(0.14)
Per capita					
Availability (*TOE*[(1)])..........................	0.38	0.36	0.36	0.36	0.35
Change (*%*)....................................	(2.56)	(5.26)	1.20	(1.68)	(2.07)

(1) Tons of oil equivalent.
(2) Estimated.

Source: Hydrocarbon Development Institute of Pakistan

Pakistan's energy consumption of 40.2 MTOE in 2012-13 was met by a mix of natural gas, oil, electricity, coal and Liquid Petroleum Gas (**LPG**). Natural gas consumption accounted for 44 per cent of total energy consumption followed by oil (30 per cent), electricity (16 per cent), coal (9 per cent) and LPG (1 per cent). From 2004-05 to 2012-13, consumption of natural gas and oil increased by 5.3 per cent and 0.5 per cent, respectively.

Consumption of natural gas and coal declined during 2012-13 by 1.57 per cent and 10 per cent, respectively, compared to 2011-12, while consumption of petroleum products and electricity increased by 3.8 per cent and 0.04 per cent over, respectively, the same period. Energy supplies decreased slightly by 0.14 per cent in 2012-13 compared to 2011-12.

During 2012-13 supplies of coal and gas decreased by 10 per cent and 2.8 per cent, respectively, compared to 2011-12, whereas the supply of electricity increased by 2.7 per cent compared to the same period. In comparison with 2010-11 during 2012-13 supplies of coal decreased by 11.2 per cent while gas supplies increased by 1.5 per cent.

3,377 MW of electricity has been added to the system since 2008-09. Through independent power projects, a further 163 MW will be added in 2013-14 whilst an expected 4,411 MW will be added by

December 2020. Transmission and distribution losses increased from 16.6 per cent in 2010-11 to 17.3 per cent in 2011-12, decreased to 17.1 per cent in 2012-13 but then rose to 18 per cent during the first six months of 2013-14. Consistent efforts are being made to improve the liquidity of the energy sector to resolve the circular debt issue.

Crude Oil. Recoverable reserves of crude oil in Pakistan at the end of 2012-13 were estimated at 371 million barrels. During 2012-13, average crude oil production per day increased to 76,277 barrels per day compared to 67,140 barrels per day in 2011-12 and 65,866 barrels per day in 2010-11. During 2012-13 overall production increased to 27.84 million barrels from 24.57 million barrels during 2011-12 and 24.04 million barrels in 2010-11, an increase of 13.61 per cent and 1.9 per cent, respectively.

In 2012-13, 45,103 (59.1 per cent) barrels per day were produced in the northern region and 31,174 (40.9 per cent) barrels per day were produced in the southern region, compared to 40,632 (60.5 per cent) barrels and 26,508 (39.5 per cent) barrels produced per day in the northern and southern region, respectively, in 2011-12. During 2012-13, production of crude oil in the northern region increased by 11 per cent, whereas production in the southern region increased by 17.6 per cent in each case as compared to 2011-12.

The following table, in barrels of oil per day (**BPOD**), sets out details by company of production of crude oil for the periods stated:

Region	**2010-11**	**2011-12**	**2012-13**	**2011-12/2012-13**
		(*Barrels of oil per day*)		**(*% change*)**
Northern Region	**35,367.74**	**40,632.04**	**45,102.63**	**11.00**
Dewan	207.38	188.14	167.51	(10.96)
OGDCL	18,568.47	21,914.35	24,470.67	11.67
OPII	680.38	869.74	632.76	(27.25)
POL	3,327.12	2,710.13	2,153.06	(20.55)
PPL	5,138.52	6,292.98	6,400.58	1.71
MOL	7,487.87	7,330.47	10,603.79	26.62
PCL	-	282.12	674.26	139.00
Southern Region	**30,498.44**	**26,508.13**	**31,174.00**	**17.60**
OGDCL	18,315.59	16,369.45	16,930.02	3.42
BP (Pakistan)	8,362.90	6,977.04	11,621.39	66.57
PPL	1,140.31	365.28	166.70	(54.36)
BHP	2,169.09	2,228.62	1,954.44	(14.38)
OMV	52.16	45.70	39.71	(13.12)
ENI	332.98	332.60	319.67	(3.89)
MGCL	17.55	70.16	102.06	45.46
Petronas	107.86	65.27	40.01	(38.69)
Total	**65,866.18**	**67,140.16**	**76,276.64**	**13.61**

Source: Ministry of Petroleum and Natural Resources

Natural Gas. In 2012-13, recoverable natural gas reserves have been estimated at 24.7 trillion cubic feet. Average supply of natural gas during 2012-13 was almost 4,126 million cubic feet per day (**MMcfd**) compared to 4,259 MMcfd during 2011-12 and 4,032 MMcfd during 2010-11, a decrease of 3.14 per cent and an increase of 5.65 per cent, respectively. Natural gas is used in general industry to prepare consumer items, to produce cement and to generate electricity. In the form of Compressed Natural Gas (**CNG**), it is used in the transport sector and most importantly to manufacture fertilizer for the agricultural sector.

In 2013-14, it is expected that gas will be supplied to approximately 39,000 new consumers and that about 350 new towns and villages will be connected to the gas network.

Currently 29 private and public sector companies are engaged in oil and natural gas exploration and production activities. The following table sets out details by company of production of natural gas for the periods stated:

Company	2010-2011	2011-12	2012-13	2011-12/2012-13
		(*Million cubic feet per day*)		(*% change*)
BHP	392.13	442.35	404.73	(8.50)
ENI	478.24	481.73	499.17	3.62
Dewan	28.56	26.47	23.18	(12.40)
MGCL	509.86	562.67	579.06	2.91
OGDCL	862.12	1,055.90	1,089.40	3.17
OMV	443.52	389.13	319.00	(18.02)
OPII.	13.38	17.07	13.43	(21.33)
POL	21.23	19.44	14.79	(23.92)
PPL	760.36	770.40	707.69	(8.14)
Hycarbex	-	7.33	10.31	40.75
Tullow	0.38	-	-	-
PEL	26.87	24.26	21.50	(11.38)
BP (Pakistan)	176.83	136.95	160.53	17.22
Petronas	13.24	12.59	9.23	(26.70)
MOL	305.04	313.15	273.55	(12.65)
Total	**4,031.76**	**4,259.44**	**4,125.59**	**(3.14)**

Source: Ministry of Petroleum and Natural Resources

Iran-Pakistan Gas Pipeline Project. Since 2002, Pakistan, Iran and India have been actively discussing the construction of a natural gas pipeline that would bring natural gas from Iranian natural gas fields through an on-land route to Pakistan and India. The project would be undertaken on a segmented basis, with each country undertaking to develop their infrastructure independently, but in a coordinated manner. The total length of the pipeline is expected to be 1,931 km, of which 1,150 km is to be located inside Iran and 781 km inside Pakistan. Iran has been progressing implementation of the pipeline and has laid 900 km of pipeline to date, with the aim of supplies commencing in 2014-15. In February 2014, the Minister for Petroleum and Natural Resources informed the National Assembly that Pakistan had not yet commenced construction on its section of the pipeline due to international sanctions against Iran.

LPG. LPG contributes approximately 0.5 per cent of Pakistan's total energy supplies. The Government intends to increase the use of LPG to reduce deforestation in areas where the supply of natural gas is not technically viable. As a result of the Government's policies, LPG supplies have gradually increased. The cornerstone of the Government's LPG policy is to ensure availability of LPG at a competitive price for the end consumer. LPG marketing companies have imported around 68,408 Mt of LPG during 2012-13 compared to 80,336 Mt during 2011-12 and 60,145 Mt during 2010-11, a decrease of 14.85 per cent and an increase of 33.57 per cent, respectively.

In an effort to reduce Pakistan's dependency on other fuels as well as to help mitigate climate change and global warming, the use of CNG in vehicles is encouraged by the Government. Due to the price difference between CNG and petrol, many consumers have converted their petrol vehicles to CNG and in 2012-13, approximately 2.7 million vehicles in Pakistan were using CNG. There are approximately 3,395 CNG stations operating in Pakistan. Pakistan is at present the largest CNG user in the world.

The Ministry of Petroleum and National Resources is currently engaged in three proposals for infrastructure projects at Port Qasim, Karachi for the import of liquefied natural gas to Pakistan.

Coal. Pakistan has coal resources estimated at over 186 billion Mt, including 175 billion Mt identified at the Thar coalfields in Sindh province. Pakistan's coal generally ranks from lignite to sub-bituminous, so to cater for domestic demand almost four million tons of coal a year is imported. During 2012-13, 6.89 million tons of coal were supplied to various sectors of the economy compared to 7.67 million tons during 2011-12, a decrease of 10 per cent. The Government is developing the Thar coalfield so as to increase the use of coal and reduce Pakistan's dependency on imported fuels.

During 2012-13, approximately 39.1 per cent of total coal production was consumed by the brick kiln industry, while 56.1 per cent was consumed by the cement industry, a reduction of 13.26 per cent and 7.56 per cent respectively compared to 2011-12, and a reduction of 10.24 per cent and 7.69 per cent compared to 2010-11 respectively.

Shale Oil and Gas. The U.S. Energy Information Administration estimates Pakistan has technically recoverable shale gas reserves of 105 trillion cubic feet (**Tcf**) and shale oil reserves of 9.1 billion barrels. Exploration, development and production of oil shale and gas shale reserves is extremely challenging. The Government is currently developing an Interim Shale Gas/Oil Framework which would provide special incentives to technically and financially sound companies interested in undertaking shale pilot projects in Pakistan.

Tight Gas. Pakistan is estimated to have 35 Tcf of tight gas reserves. The presence of tight gas has been established in reservoirs of different ages and in most of the sedimentary basins of Pakistan. The middle and lower Indus basins are considered to be most prolific for the exploration and production of tight gas. The first tight gas discovery in Pakistan was in 2009 and is currently under production by the Pakistan Oil and Gas Development Company and Pakistan Petroleum (**PPL**) joint venture. Other companies have also made significant progress towards exploration of Pakistan's tight gas reserves. Pakistan has put in place various price and tax incentives to encourage investment in the exploration and production of tight gas.

Investment Opportunities in Pakistan Hydrocarbons. Pakistan has large potential hydrocarbon resources, most of which are still untapped. Pakistan has a large sedimentary area of 827,268 square kilometres in which only 833 exploratory and 1,160 appraisal/development wells have been drilled to date, with an average well drilling density of 2.30 wells per 1000 square kilometres. These wells have resulted in 262 discoveries, giving a success ratio of 1:3.18. The Ministry of Petroleum and Natural Resources is actively encouraging international investment to accelerate exploration activities to maximise indigenous production of oil and gas. The Government provides significant price and other attractive incentives under its Petroleum Exploration and Production Policy.

The Indus offshore is the second largest submarine fan system in the world and analogous to the prolific oil and gas producing Niger, Mahakam and Nile deltas. The offshore Pakistan area has experienced limited exploration, with only 17 wells drilled in the last 60 years. It provides an opportunity for discoveries which can be realised through employing state of the art seismic and drilling techniques. A number of multinational companies, including ENI, BHP Billiton, OMV, MOL, United Energy Pakistan Limited, are currently working in Pakistan.

Oil and Gas Development Company (**OGDCL**) and PPL are the two public sector companies engaged in the exploration of oil and gas in Pakistan. OGDCL and PPL hold 62 and 28 exploration licences respectively. These companies are willing to enter into joint venture projects with international exploration and production companies in exploration of hydrocarbons in Pakistan.

BALANCE OF PAYMENTS AND FOREIGN TRADE

Balance of Payments

Pakistan's balance of payments has witnessed significant challenges since 2008-09. Initially, Pakistan's external current account deficit increased significantly due to international commodity prices, particularly of oil. The balance of payments improved over the period 2010-11 through to 2012-13 as the deficit declined to an average 1 per cent of GDP. Despite this improvement, however, the deterioration of Pakistan's capital and financial account balances resulted in no significant overall improvement to its balance of payments position. In addition, there have been substantial repayments of IMF loans since 2011. The worsening balance of payments, together with the IMF loan repayments, resulted in a deterioration of Pakistan's foreign exchange reserves and led to exchange rate volatility.

In the first eight months of 2013-14, Pakistan's external current account deficit was U.S.$2.0 billion, considerably higher than the deficit of U.S.$831 million in the corresponding period of 2012-13, principally due to lower inflows under the coalition support fund (**CSF**). Pakistan received CSF inflows of U.S.$675 million during the first eight months of 2013-14, compared to U.S.$1.8 billion in the corresponding period of 2012-13. Pakistan's capital and financial accounts have witnessed a surplus of U.S.$1.3 billion during the first eight months of 2013-14.

The Government is committed to addressing Pakistan's balance of payments problem. Considerable foreign exchange inflows are expected during the remaining period of 2013-14. These include the remaining amount of CSF, 3G/4G licence fee receipts, overdue proceeds from the privatisation of Pakistan Telecommunications Company Limited, the issue of the Notes and additional inflows from bilateral and multilateral sources. See "*Public Debt*".

The payment of U.S.$1,152.4 million to the IMF during the second quarter of 2013-14 represented the peak of Pakistan's IMF loan repayment schedule. The net financing received from the IMF during the first six months of 2013-14 was negative U.S.$929.0 million, despite the receipt of U.S.$1.1 billion under the new IMF programme. As scheduled repayments to the IMF decline throughout 2013-14, net financing from the IMF is expected to increase. As a result, the Government expects a gradual increase in Pakistan's foreign exchange reserves, which were U.S.$9.9 billion as at 27 March 2014. See "– *Foreign Reserves*".

The Government has specifically focused on two aspects of balance of payments reform. First, increasing the net private direct and portfolio investment, which was 0.5 per cent of GDP at the end of 2012-13; and, increasing the export-to-GDP ratio (10.3 per cent at the end of 2012-13), which has been declining for over a decade. Government efforts are underway to improve product and market diversification to reverse this trend and reduce the trade deficit.

The following table sets out information in relation to Pakistan's balance of payments for the periods stated:

	2008-09	2009-10	2010-11	2011-12	2012-13	Jul-Feb 2012-13	Jul-Feb 2013-14[(1)]
				(***U.S.$ million***)			
Trade balance	(12,626)	(11,536)	(10,516)	(15,765)	(15,431)	(10,434)	(10,907)
Export	19,121	19,673	25,356	24,696	24,795	16,162	16,762
Imports	31,747	31,209	35,872	40,461	40,226	26,596	27,669
Services balance (net)	(3,381)	(1,690)	(1,940)	(3,192)	(1,472)	(452)	(1,663)
Receipts	4,106	5,229	5,768	5,035	6,733	4,983	3,381
Payments	7,487	6,919	7,708	8,227	8,205	5,435	5,044
Of which:							
Transport	3,633	3,577	4,072	3,510	3,291	2,181	2,466

	2008-09	2009-10	2010-11	2011-12	2012-13	Jul-Feb 2012-13	Jul-Feb 2013-14(1)
Travel	1,002	879	972	1,367	1,233	872	684
Income account balance (net)	(4,407)	(3,282)	(3,017)	(3,245)	(3,685)	(2,204)	(2,469)
Current transfers (net)................	11,154	12,562	15,687	17,544	18,092	12,259	13,019
Of which workers' remittances......................	7,811	8,906	11,201	13,186	13,922	9,235	10,246
Current account	(9,261)	(3,946)	214	(4,658)	(2,496)	(831)	(2,020)
Capital account	455	175	161	183	264	156	962
Financial account	5,632	5,097	2,101	1,280	549	(102)	331
Direct investment (net)......	3,695	2,075	1,591	744	1,258	452	513
Portfolio investment (net)..	(1,073)	(65)	338	(144)	26	86	138
Other investment assets...	560	(11)	(920)	9	(314)	(516)	12
Other investment liabilities...........................	2,450	3,098	1,092	671	(421)	(124)	(332)
Net errors and omissions	118	(60)	16	(80)	(309)	(301)	(527)
Reserves and related items.........	3,056	(1,266)	(2,492)	3,275	1,992	1,078	1,254

(1) Provisional.

Source: State Bank of Pakistan

The following table sets out the components of balance of payments (as per cent of GDP) for the periods stated:

	2008-09	2009-10	2010-11	2011-12	2012-13
			(*% of GDP*)		
Exports	10.5	10.9	11.6	10.5	10.3
Imports....................................	20.7	19.6	18.9	20.0	19.0
Trade deficit	10.2	8.7	7.3	9.5	8.6
Worker's remittances	4.7	5.0	5.2	5.9	5.9
Current account balance	(5.5)	(2.2)	0.1	(2.1)	(1.1)

Source: State Bank of Pakistan

Foreign Trade

Since its formation in 1947, Pakistan has been committed to multilateral trade, Pakistan is a founding member of the General Agreement on Tariffs and Trade (**GATT**) and the WTO and actively participates in multilateral trade negotiations. The Government is following a policy of export-led growth and has liberalised its trade and investment regime in recent years.

The review of Pakistan's trade policy conducted by the WTO in 2010 noted favourably the trade reforms made by the Government since the previous review in 2007. In particular, customs procedures have been greatly improved, overall tariff protection considerably reduced, tariff bindings increased and intellectual property rights strengthened. The WTO is scheduled to report on Pakistan's trade policy in 2014.

With respect to its trade regime, Pakistan has lowered its tariffs both on agricultural and non-agricultural goods.

Pakistan is a member of the Trade Preferential System of the OIC and the Asia Cooperation Dialogue and is a Sectoral Dialogue Partner of ASEAN.

Exports and Imports

Exports. Merchandise exports increased to U.S.$24.52 billion in 2012-13 (growth of 3.8 per cent) compared to U.S.$23.62 billion in 2011-12. The growth in exports was broadly based across most groups (textile and non-textile) with the textile and food groups contributing 5.9 per cent and 11.3 per cent, respectively, to overall exports growth during this period. Merchandise exports were U.S.$12.64 billion for the first six months of 2013-14 compared to U.S.$12.04 billion for the first six months of 2012-13.

The following table sets out details of the composition of Pakistan's exports for the periods stated:(1)

	2008-09	2009-10	2010-11	2011-12	2012-13	% Change 2011-12/ 2012-13	Absolute Change 2011-12/ 2012-13 (*U.S.$ million*)	% Share
			(*U.S.$ million*)					
Food group	3,008.2	3,283.8	4,509.2	4,249.8	4,732.0	11.3	482.2	19.3
Textile manufacture......	9,572.8	10,221.4	13,788.1	12,336.0	13,064.2	5.9	728.2	53.3
Petroleum group	813.7	1,033.7	1,352.5	903.1	28.4	(96.9)	(874.6)	0.1
Other manufactures	3,600.1	3,786.9	4,041.8	4,863.7	5,107.4	5.0	243.7	20.8
All other items	693.2	964.2	1,118.8	1,271.8	1,583.4	24.5	311.6	6.5
Total	**17,688.0**	**19,290.0**	**24,810.4**	**23,624.4**	**24,515.4**	**3.8**	**891.1**	**100.0**

(1) Total exports in this table are calculated by the Pakistan Bureau of Statistics using customs data that differs from total exports in the Major Economic Indicators table included elsewhere in this offering circular. The total exports in the Major Economic Indicators table is calculated by the State Bank of Pakistan on a cash payment and receipt basis, and used by the State Bank of Pakistan to calculate Pakistan's balance of payments position.

Source: Pakistan Bureau of Statistics

The following table sets out details of the principal destinations of Pakistan's exports for the periods stated:

Country	2008-09	2009-10	2010-11	2011-12	2012-13
			(*U.S.$ billion*)		
U.S.	3.41	3.36	3.96	3.53	3.53
China	0.71	1.15	1.63	2.18	2.61
United Arab Emirates...........	1.51	1.72	1.80	2.29	2.14
Afghanistan..........................	0.92	1.57	2.33	2.25	2.07
United Kingdom	0.89	1.03	1.21	1.18	1.25
Germany..............................	0.75	0.79	1.27	1.06	0.97
France	0.33	0.32	0.39	0.33	0.96
Bangladesh..........................	0.39	0.48	1.01	0.63	0.71
Italy......................................	0.59	0.61	0.79	0.58	0.54
Spain	0.41	0.43	0.57	0.49	0.53

Source: Pakistan Bureau of Statistics

Imports. Merchandise imports increased slightly to U.S.$44.95 billion in 2012-13 compared to U.S.$44.91 billion in 2011-12. Imports in the telecom sector increased by 17.7 per cent from U.S.$1.27 billion in 2011-12 to U.S.$1.49 billion in 2012-13. Other imports increased by 14.3 per cent in the same period. The principal decreases in imports during 2012-13 were in the food group (a decrease of 16.1 per cent), raw materials (a decrease of 3.8 per cent) and petroleum group (a decrease of 2.2 per cent). Merchandise imports were U.S.$21.67 billion for the first six months of 2013-14 compared to U.S.$21.90 billion for the first six months of 2012-13.

Pakistan imports significant amounts of crude oil from the United Arab Emirates (3.75 Mt in 2012-13) and Saudi Arabia (3.14 Mt in 2012-13) and a lesser amount from Qatar (0.07 Mt in 2012-13). In 2011-12 it imported a small amount of crude oil from Thailand and a nominal amount from Iran.

The following table sets out details of the composition of Pakistan's imports for the periods stated:[1]

	2008-09	2009-10	2010-11	2011-12	2012-13	% Change 2011-12/ 2012-13	Absolute Change 2011-12/ 2012-13 (*U.S.$ million*)	% Share
			(*U.S.$ million*)					
Food group	4,149.7	3,575.2	5,086.4	4,993.5	4,187.6	(16.1)	(805.9)	9.3
Machinery group	4,864.1	3,933.2	3,455.4	3,552.2	3,382.0	(4.9)	(173.2)	7.5
Petroleum group	9,508.1	10,028.9	12,082.6	15,252.6	14,917.3	2.2	(335.4)	33.2
Consumer durables	1,707.2	1,921.5	2,169.2	2,468.5	2,276.9	(7.85)	(191.62)	5.1
Raw materials	5,135.9	5,490.7	5,991.2	6,450.5	6,207.7	(3.8)	(242.87)	13.8
Telecom	961.3	759.5	1,023.6	1,268.4	1,492.4	17.7	224	3.3
Others	8,495.7	9,001.0	10,605.3	10,923.2	12,486.6	14.3	1,563.4	27.8
Total	**34,822**	**34,710**	**40,414**	**44,912**	**44,951**	**0.1**	**38**	**100.0**
Excluding petroleum group	25,313.9	24,681.1	28,331.1	29,659	30,033	1.3	374	66.8
Excluding petroleum and food groups	21,164.2	21,105.9	23,244.7	24,666	25,846	4.8	1,180	57.5

(1) Total imports in this table are calculated by the Pakistan Bureau of Statistics using customs data that differs from total imports in the Major Economic Indicators table included elsewhere in this offering circular. The total imports data in the Major Economic Indicators table is calculated by the State Bank of Pakistan on a cash payment and receipt basis, and used by the State Bank of Pakistan to calculate Pakistan's balance of payments position.

Source: Pakistan Bureau of Statistics

The following table sets out details of the principal countries from which Pakistan imports for the periods stated:

Country	2008-09	2009-10	2010-11	2011-12	2012-13
			(*U.S.$ billion*)		
United Arab Emirates	3.14	5.02	5.43	7.68	8.65
China	4.06	4.41	5.79	6.72	6.64
Kuwait	2.30	2.40	3.33	4.00	4.06
Saudi Arabia	4.25	3.39	4.55	5.03	3.46
Malaysia	1.60	1.74	2.46	2.44	2.10
Japan	1.25	1.54	1.66	1.92	2.04
India	0.92	1.23	1.74	1.51	1.81
U.S.	1.86	1.61	1.81	1.48	1.62
Germany	1.30	1.81	0.94	1.12	1.35
Indonesia	0.54	0.64	0.80	1.16	1.30

Source: Pakistan Bureau of Statistics

The Office of Foreign Assets Control of the U.S. Department of Treasury (**OFAC**) administers regulations that restrict the ability of U.S. persons to invest in, or otherwise engage in business with, certain countries, including Iran, and specially designated nationals (together **Sanction Targets**). Pakistan trades primarily food and metal products with Iran which are exempt from trade sanctions, and in 2012-13 this trade totalled approximately U.S.$265.6 million, less than 5 per cent of Pakistan's total imports and exports in 2012-13. Pakistan has historically imported crude oil from Iran; however, as a result of the increasing sanctions environment, Pakistan ceased crude oil imports during 2012-13. As Pakistan is not a Sanction Target, OFAC regulations do not prohibit U.S. persons from investing in, or otherwise engaging in business with, Pakistan. However, to the extent that Pakistan invests in, or otherwise engages in business with, Sanction Targets directly or indirectly, U.S. persons investing in Pakistan may incur the risk of indirect contact with Sanction Targets. Non-U.S. persons from jurisdictions with similar sanctions may similarly incur the risk of indirect contacts with Sanction Targets.

Workers' Remittances

The SBP, the Ministry of Overseas Pakistanis and the Ministry of Finance launched a joint initiative - called the Pakistan Remittance Initiative (**PRI**) - in 2009 with the aim of (i) facilitating and supporting the efficient flow of remittances and (ii) providing investment opportunities in Pakistan for overseas Pakistanis. To date, the establishment of PRI has contributed positively to the flow of workers' remittances to Pakistan, which have grown by 78 per cent from 2008-09 to 2012-13. Geographically, Saudi Arabia, the United Arab Emirates, the U.S. and the U.K. are the principal sources of workers' remittances.

Workers' remittances increased to U.S$10.2 billion during July to February 2013-14 compared to U.S.$9.2 billion in July-February 2012-13. The Government expects workers' remittances to exceed U.S.$15 billion by the end of 2013-14.

The trend of increased workers' remittances is summarised in the table below:

	2008-09	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**Jul-Feb 2012-13**	**Jul-Feb 2013-14(1)**
				(*U.S.$ billion*)			
Total...............................	**7.8**	**8.9**	**11.2**	**13.2**	**13.9**	**9.2**	**10.2**
U.S.	1.7	1.8	2.1	2.3	2.2	1.5	1.6
Saudi Arabia...................	1.6	1.8	2.7	3.7	4.1	2.6	3.0
UAE................................	1.7	2.0	2.6	2.8	2.8	1.9	2.0
Other Gulf Cooperation Council Countries	1.2	1.2	1.3	1.5	1.6	1.1	1.2
U.K.	0.6	0.9	1.2	1.5	1.9	1.3	1.5
EU	0.2	0.3	0.4	0.4	0.4	0.2	0.3
Other Countries	0.8	0.8	1.0	1.0	1.0	0.7	0.7

(1) Provisional.

Source: State Bank of Pakistan

Foreign Direct Investment

Pakistan has a liberal foreign investment regime which generally allows for 100 per cent foreign ownership of companies and for full repatriation of capital, capital gains, dividends and profit in most sectors of the economy. Foreign private investment increased substantially to U.S.$1.6 billion in 2012-13 compared to U.S.$760 million in 2011-12. In particular, FDI in the petroleum sector has increased and continues to be the main sector for FDI, attracting U.S.$716.7 million inflows in petro-chemicals, petroleum refining, and oil and gas explorations in 2012-13, followed by FDI in the financial sector which attracted U.S$388.9 million inflows in 2012-13.

The following table summarises the net inflow of foreign investment in Pakistan for the periods stated:

	2008-09	2009-10	2010-11	2011-12	2012-13	Jul-Feb 2012-13	Jul-Feb 2013-14
				(*U.S.$ million*)			
Foreign private investment	**3,209.5**	**2,738.7**	**1,999.3**	**760.6**	**1,576.0**	**684.1**	**660.3**
Direct investment	3,719.9	2,150.8	1,634.7	820.6	1,456.5	514.2	606.3
Inflow	4,479.4	3,184.3	2,269.6	2,099.1	2,665.3	1,418.6	1,262.5
Outflow.......	759.5	1,033.5	634.8	1,278.4	1,208.9	904.4	656.2
Portfolio Investment	(510.4)	587.9	364.6	(60.0)	119.6	169.9	54.0
Equity securities.................	(409.8)	600.9	364.6	(60.0)	119.6	169.9	166.3
Debt securities	(100.6)	(13.0)					(112.2)
Convertible bonds of Pakistan............................	-	(13.0)					
International bonds of PMCL...............................	(100.6)	-					(112.2)
Foreign public investment............	**(544.1)**	**(652.4)**	**(20.1)**	**(52.8)**	**4.6**	**3.7**	**64.3**
Portfolio investment	(544.1)	(652.4)	(20.1)	(52.8)	4.6	3.7	64.3
Equity securities.................							
Debt securities(1)	(544.1)	(652.4)	(20.1)	(52.8)	4.6	3.7	64.3
Total...	**2,665.4**	**2,086.3**	**1,979.2**	**707.8**	**1,580.6**	**680.4**	**724.6**

(1) Net sale or purchase of special U.S. dollar denominated bonds, Eurobonds, Foreign Exchange Bearer Certificates, Dollar Bearer Certificates, Treasury Bills and Pakistan Investment Bonds.

Source: State Bank of Pakistan

Foreign Reserves

The following table sets out the total liquid foreign exchange reserves and gold reserves as at 30 June for the years stated, and as at 27 March 2014:

	2009	2010	2011	2012	2013	As at 27 March 2014(1)
				(*U.S.$ million*)		
Liquid Foreign Exchange Reserves	12,425.2	16,750.4	18,243.8	15,288.6	11,019.6	9,999
Gold reserves.................	1,935	2,575	3,117	3,311	2,469	-

(1) Provisional.

Source: State Bank of Pakistan

Total foreign exchange reserves were U.S.$9.9 billion on 27 March 2014. This substantial decline in foreign exchange reserves compared to prior years is principally due to repayments of loans to the IMF (U.S.$6.4 billion from February 2012 to February 2014) and decreasing availability of external financial inflows. See "*Public Debt*".

Inflation, Money and Monetary Policy

Inflation

Consumer Price Index (**CPI**) inflation witnessed high volatility and remained in double digits during the period 2008-09 to 2011-12. It reached a record high level of 25.3 per cent in August 2008, largely due to the significant rise in international commodity prices. Although inflation decelerated following the stability in international commodity prices in early 2009, devastating floods in 2010 severely disrupted the supply chain resulting in significant inflationary pressures. In 2012-13, CPI inflation decreased significantly to 7.4 per cent, principally due to a slowdown in economic activity, stability in international commodity prices, the absence of power tariff adjustments implemented by the Government and a significant decline in gas tariff rates.

Since 1 July 2013, CPI inflation increased significantly, with year-on-year inflation reaching 10.9 per cent in November 2013. Both food and non-food groups in the CPI basket contributed to this increase. To reduce the fiscal deficit, the Government undertook fiscal consolidation measures in the budget for 2013-14, such as rationalisation of the energy sector subsidies and an upward revision of General Sale Tax (**GST**) rates, in addition to the withdrawal of some tax exemptions. Together, these measures increased wholesale and consumer prices in this period.

The new Government has taken various measures to bring inflation down since coming to office in May 2013. Such measures include prudent expenditure management and regular reviews of prices through fortnightly meetings of the Economic Coordination Committee (**ECC**). The National Price Monitoring Committee (**NPMC**) also reviews prices and suggests price stabilising measures to the ECC. Moreover, the SBP has tightened its monetary policy. As a consequence, CPI inflation has started to come down since November 2013, reaching year-on-year CPI inflation of 7.9 per cent in February 2014. During the first eight months of 2013-14, CPI inflation averaged 8.6 per cent. The Government believes that the risk of demand-driven inflation is moderate as it will take some time before the pick-up in economic growth increases aggregate demand.

The following table sets out headline core inflation for the periods stated:

	2008-09	2009-10	2010-11	2011-12	2012-13	Jul-Feb 2012-13	Jul-Feb 2013-14
Indices							
General	117.03	128.85	146.45	162.57	174.53	172.78	187.72
Food	123.12	139.05	164.10	182.20	195.18	193.41	211.34
Non-food	113.37	122.74	135.87	150.80	162.16	160.42	173.57
Core(1)	111.43	119.87	131.16	145.03	158.96	156.9	169.97
% Change							
General	17.0	10.1	13.7	11.0	7.4	8.2	8.6
Food	23.1	12.9	18.0	11.0	7.1	7.4	9.3
Non-food	13.4	8.3	10.7	11.0	7.5	8.7	8.2
Core(1)	11.4	7.6	9.4	10.6	9.6	10.2	8.3

(1) Core inflation is defined as overall inflation adjusted for food and energy. The base year is 2007-08.

Source: State Bank of Pakistan

Money and Monetary Policy

Pakistan's monetary policy has undergone substantial changes in tandem with changing economic conditions in the country. The key objective of monetary policy is to achieve price stability without prejudicing economic growth.

From July 2013 through March 2014, monetary expansion decreased to 5.9 per cent from 8.5 per cent compared to the corresponding period in the prior fiscal year. This decrease was principally due to a contraction in net foreign assets (**NFA**) and lower government budgetary borrowings from the banking system, offset by an increase in private sector credit. This increase in private sector credit was due to improved supply of electricity, improved financial conditions in the corporate sector, and improved business sentiment in the markets following the May 2013 elections.

Since the beginning of 2013-14, the SBP increased the base rate in September and November 2013 in view of a continued deterioration in Pakistan's balance of payments position, as well as a worsening inflation outlook. In its January 2014 and March 2014 monetary policy decisions, the SBP kept the base rate unchanged at 10.0 per cent, largely driven by a lower inflationary outlook for the rest of 2013-14.

Money supply grew by 15 per cent on average during 2011-12 to 2012-13 on account of growth in the Government's fiscal needs. Government borrowing from the banking system increased on average by 42.1 per cent during this period while credit to the private sector remained suppressed, despite a lowering of the base rate. Average growth in credit to private sector recorded an increase of 3.5 per cent during this period. The Government's higher dependence on the banking system to finance its budget deficit was primarily due to a lower realisation of budgeted external financing with low growth in revenue generation.

The following table provides an overview of components of monetary assets as at 30 June for the periods stated, and as at 14 March 2014.

	2008-09	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**As at 14 March 2014[1]**
			(*Stock, Rupees billion*)			
1. Currency issued	1,231.9	1,385.5	1,608.6	1,785.8	2,050.2	2,321.2
2. Currency held by SBP	2.7	2.5	2.4	2	1.1	0.8
3. Currency in title of Scheduled Banks...	77	87.7	104.9	110.1	110.9	109.8
4. Currency circulation (1-2-3).........	1,152.2	1,295.3	1,501.3	1,673.7	1,938.2	2,210.6
5. Other deposits with SBP	4.7	6.7	10.1	8.9	10.5	11.0
6. Scheduled banks' total deposits[2].......................................	3,980.4	4,475.2	5,183.6	5,959.2	6,909.1	7,155.2
7. Resident foreign currency deposits (**RFCD**)	280.4	345.4	374.9	440.1	515	591.8
8. Monetary assets (4+5+6)	5,137.3	5,777.2	6,695.0	7,641.8	8,857.8	9,376.8
9. Growth rate (%)..........................	9.6	12.5	15.9	14.1	15.9	5.9
Notes:						
1. Currency/money ratio..................	22.4	22.4	22.4	21.9	21.9	23.6
2. Demand deposits/money ratio.....	62.4	62.2	61.6	61.7	63.1	62.4
3. Time deposits/money ratio	9.6	9.3	10.2	10.6	9.1	7.6
4. Other deposits/money ratio	0.1	0.1	0.2	0.1	0.1	0.1
5. RFCD/money ratio	5.5	6	5.6	5.8	5.8	6.3

	2008-09	2009-10	2010-11	2011-12	2012-13	As at 14 March 2014[(1)]
6. Income velocity[(3)].........................	2.6	2.7	2.9	2.8	2.8	-

(1) Provisional.
(2) Excluding inter-bank deposits and deposits of federal and provincial governments, foreign constituents and international organisations.
(3) Calculated as GDP at the quarterly average of monetary assets.

Source: State Bank of Pakistan

Exchange Rates

Pakistan moved from a managed floating exchange rate policy to a composite exchange rate system in July 1998. The composite exchange rate was then replaced with a market based unitary exchange rate system in May 1999. Under the unitary exchange rate system, the floating inter-bank rate applies to all foreign exchange receipts and payments both in public and private sectors.

All foreign exchange requirements for all approved purposes, including imports, services and debt repayment are met by the authorised dealers that form the inter-bank market. The authorised dealers are not required to approach the SBP for release of foreign exchange for any purpose, nor are they required to surrender it to the SBP. While each authorised dealer is free to fix its own buying and selling rates, the spread between the spot buying and selling rate should not exceed Rupees 0.2 per U.S. dollar. The SBP does not provide forward cover to the authorised dealers. However, authorised dealers may provide forward cover for exports, imports and other permitted transactions for any duration, in accordance with the conditions prevailing in the market.

The exchange rate for Rupees against other currencies is determined through cross rates based on the movement of the U.S. dollar against these currencies in the foreign exchange markets. Nominal exchange rates remained relatively stable and the Rupee depreciated by 5.4 per cent against the U.S. dollar during 2012-13 as compared to 10 per cent depreciation in 2011-12 and 0.5 per cent depreciation in 2010-11. From 30 June 2013 through 28 March 2014, the Rupee has appreciated by 1.6 per cent against the U.S. dollar.

The following table sets out the average exchange rates between the Rupee and the currencies of Pakistan's principal trading partners:

Country	Currency	2008-09	2009-10	2010-11	2011-12	2012-13	1 July 2013 to 28 March 2014
Australia............	Dollar	58.59	74.06	85.12	92.08	99.39	95.41
Bangladesh.......	Taka............	1.14	1.21	1.20	1.13	1.21	1.35
Canada	Dollar	67.77	79.51	85.73	89.03	96.39	98.31
China	Yuan	11.51	12.29	12.93	14.04	15.52	17.12
Hong Kong........	Dollar	10.13	10.81	11.0	11.48	12.49	13.48
India..................	Rupee	1.65	1.80	1.89	1.79	1.77	1.69
Iran	Rial	0.01	0.01	0.01	-	-	-
Japan................	Yen	0.80	0.92	1.03	1.14	1.11	1.04
Kuwait...............	Dinar	281.43	291.64	304.82	322.32	342.45	369.04
Malaysia............	Ringgit.........	22.37	24.80	27.80	28.95	31.44	32.17
Nepal	Rupee	1.03	1.13	1.18	-	-	-
Norway..............	Krone	12.44	14.09	14.82	15.58	16.82	17.29
Singapore	Dollar	53.62	59.63	66.38	70.91	78.17	82.79
Sri Lanka...........	Rupee	0.70	0.73	0.77	0.76	0.75	0.80
Sweden.............	Krona	10.46	11.57	12.88	13.28	14.70	16.06
Switzerland	Franc...........	70.16	79.10	90.54	99.80	102.91	115.00
S.Arabia............	Riyal............	20.97	22.37	22.82	23.80	25.83	27.87
Thailand............	Baht	2.27	2.53	2.79	-	-	3.27
UAE	Dirham	21.41	22.84	23.30	24.30	26.37	28.46

Country	Currency	2008-09	2009-10	2010-11	2011-12	2012-13	1 July 2013 to 28 March 2014
U.K....................	Pound	126.64	132.77	136.34	141.40	151.78	168.18
U.S....................	Dollar	78.65	83.89	85.56	89.27	96.85	104.52
EMU..................	Euro	107.43	116.50	116.60	119.20	125.12	141.35
IMF	SDR(1)	119.96	129.74	133.34	138.94	147.23	-

(1) Special Drawing Rights (**SDR**) or supplementary foreign exchange reserve assets defined and maintained by the IMF. SDRs are not a currency, instead they represent a claim to a currency held by IMF member countries for which they may be exchanged (i.e. euros, Japanese Yen, Pounds Sterling or U.S. dollars).

Note: the Exchange Rates are Mid Points of Interbank Buying and Selling.

Source: State Bank of Pakistan

PUBLIC FINANCE AND TAXATION

Background

Pakistan's fiscal year begins on 1 July and ends on the following 30 June. Each year, a detailed annual plan setting forth planned current and development expenditures, projected revenues, plans for financing projected budget deficits and projections for macro-economic indicators is developed and published in June. The planning process is undertaken by the Planning Commission (principally involved in formulating plans for developmental expenditures) and the Budget Wing of the Ministry for Finance and Economic Affairs (responsible for determining projections for current expenditure and Government revenues). These groups co-ordinate revenue and expenditure plans and formulate the annual plan.

Budgetary process

The Constitution governs Pakistan's budgetary process. The executive branch prepares the national budget and presents it to Parliament. Parliament has the opportunity to review the budget but does not have the power to amend that part of the budget which relates to expenditure described by the Constitution as expenditure charged to the Federal Consolidated Fund. Parliamentary rules allow for three types of motions with respect to a proposed demand for grant: (i) a disapproval of policy cut, which allows for a member to present his disapproval to a specified policy and advocate an alternative policy; (ii) an economy cut, which allows for the reduction in a budgetary item or the omission or reduction of a budgetary item; and (iii) a token cut, which allows for the reduction by Rupees 100 in light of a specific grievance. Thereafter, the Prime Minister authenticates a schedule of authorised expenditures. No expenditure is deemed authorised unless it is presented before the National Assembly.

2013-14 Budget. The Pakistan 2013-14 budget, as published by the Finance Division of the Government of Pakistan on 12 June 2013, has the following main features:

- the total outlay for the budget 2013-14 is Rupees 3,985 billion. This is 24.5 per cent higher than the size of budget estimates for 2012-13;
- resource availability during 2013-14 has been estimated at Rupees 3,010 billion against Rupees 2,719 billion in the budget estimate of 2012-13;
- net revenue receipts for 2013-14 have been estimated at Rupees 1,918 billion, an increase of 7.9 per cent over the budget estimates of 2012-13;
- the provincial share of federal revenue receipts is estimated at Rupees 1,502 billion during 2013-14, which is 3.0 per cent higher than the budget estimates for 2012-13;
- net capital receipts for 2013-14 have been estimated at Rupees 493 billion against the budget estimates of Rupees 478 billion in 2012-13, an increase of 3.2 per cent;
- external receipts in 2013-14 are estimated at Rupees 576 billion, an increase of 50.1 per cent over budget estimates for 2012-13;
- overall expenditure during 2013-14 has been estimated at Rupees 3,985 billion of which current expenditure is Rupees 3,196 billion and development expenditure is Rupees 789 billion. Current expenditure shows an increase of approximately 9.9 per cent over the revised estimates of 2012-13, while development expenditure is budgeted to increase by 37.7 per cent in 2013-14 over the revised estimates of 2012-13;
- the share of current expenditure in total budgetary outlay for 2013-14 is 80.2 per cent as compared to 83.5 per cent in revised estimates for 2012-13;

- expenditure on General Public Services (inclusive of debt servicing transfer payments and superannuation allowance) is estimated at Rupees 2,357 billion which is 73.8 per cent of the current expenditure;

- the size of the Public Sector Development Programme (**PSDP**) for 2013-14 is Rupees 1,155 billion as against Rupees 873 billion in 2012-13 and Rupees 172 billion has been allocated for other development expenditure;

- the provinces have been allocated an amount of Rupees 615 billion for budget estimates 2013-14 in their PSDP as against Rupees 513 billion in 2012-13; and

- Rupees 10 billion have been allocated to the Earthquake Reconstruction and Rehabilitation Authority (**ERRA**) in the PSDP 2013-14.

The main features of the 2013-14 budget are set out in the table below**:**

RECEIPTS		**EXPENDITURE**	
	(***Rupees billion***)		
(a) Tax revenue[(1)]	**2,598**	**A. CURRENT**	**2,829**
(b) Non-tax revenue	**822**	Interest payment	1,154
Gross revenue receipts	3,420	Pension	171
Less provincial share	1,502	Defence affairs and services	627
		Grants and transfers	337
I. Net revenue receipts (a-b)	1,918	Subsidies	240
II. Net capital receipts (non bank)	507	Running of civil government	275
III. External receipts (net)	169	Provision for pay and pension	25
IV. Estimated provincial surplus	23		
V. Bank borrowing	975	**B. DEVELOPMENT**	**762**
		Federal PSDP	540
		Other development expenditure	172
		Net lending	50
TOTAL RESOURCES (I to V)	**3,591**	**TOTAL EXPENDITURE (A+B)**	**3,591**

(1) Out of which the Federal Board of Revenue tax collection has been estimated at Rupees 2,475 billion.

Source: Ministry of Finance

The comparative position of 2012-13 (budget and revised) and 2013-14 (budget) is set out below:

	Budget 2012-13	**Revised 2012-13**	**Budget 2013-14**
		(***Rupees billion***)	
(i) RESOURCES (a + b)	2,719	1,902	3,010
a. Internal resources	2,335	1,659	2,434
Revenue receipts (Net)	1,777	1,615	1,917
Capital receipts (Net)	477	105	493
Estimated provincial surplus	79	(62)	23
b. External resources	383	243	576
(ii) EXPENDITURE	3,202	3,478	3,985
Current expenditure[(1)]	2,611	2,907	3,196
Development expenditure (**PSDP**)	591	571	789
Federal PSDP	360	388	540
Development loans and grants to provinces	76	75	77
Other development expenditure	154	107	171
BANK BORROWING	483	1,575	974

(1) Total current expenditure excluding repayment of foreign loans.

Source: Ministry of Finance

Fiscal position of Pakistan

The following table summarises the consolidated federal and provincial governments' revenues and expenditures for 2012-13:

	2011-12	2012-13	% change 2011-12/ 2012-13	Budget Estimate 2013-14	First Six Months Actual Projections 2013-14
	(*Rupees billion*)		(%)	(*Rupees billion*)	
A. Total revenue	**2,566.5**	**2,982.4**	**16.2**	**3,646.7**	**1,684.1**
(a) Tax revenue	2,052.9	2,199.2	7.1	2,768.1	1,171.6
Federal	1,945.7	2,048.5	5.3	2,598.1	1,084.0
of which FBR revenue	1,881.5	1,936.1	3.4	2,475.0	1,031.4
Provincial tax revenue	107.2	150.7	40.6	170.0	87.6
(b) Non-tax revenue	513.6	783.2	52.5	878.6	512.5
B. Total expenditure	**3,936.2**	**4,816.3**	**22.4**	**5,297.3**	**2,224.3**
(a) Current expenditure	3,122.5	3,660.4	17.3	3,963.0	1,887.5
Federal	2,153.7	2,565.2	19.1	2,778.0	1,352.8
Interest	889.0	991.0	11.5	1,153.5	597.7
Defence	507.2	540.6	6.6	627.2	295.3
Provincial	967.8	1,095.2	13.2	1,185.0	534.7
(b) Development expenditure and net lending	743.9	1,139.9	53.2	1,334.3	325.8
PSDP	664.8	695.1	4.6	1,155.0	212.2
Other Development	67.1	82.0	22.2	171.8	30.9
Net lending	12.0	362.8	2923.3	7.5	82.7
(d) Unidentified expenditure	69.8	16.0	(77.1)	-	11.0
C. Overall fiscal deficit	**(1,369.8)**	**(1,833.9)**	**33.9**	**(1,650.6)**	**(540.1)**
As % of GDP	6.6(1)	8.0	(5.9)	6.3	2.1
Financing of fiscal deficit	1,369.8	1,833.9	33.9	1,650.6	540.1
(i) External sources	128.7	(1.7)	(101.3)	168.7	(43.5)
(ii) Domestic sources	1,241.1	1,835.5	47.9	1,481.8	583.6
- Bank	711.7	1,457.5	104.8	975.0	483.3
- Non-bank	529.4	378.0	(28.6)	506.8	100.3
GDP at market price	20,654	22,909	14.0	26,001	26,001

(1) Excludes a one-off payment of Rupees 391 billion on account of debt consolidation.

Source: Ministry of Finance

Revenue and Expenditure

Revenue. During the past five years Pakistan's economy faced numerous challenges, including the energy crisis, persistent inflationary pressures, unprecedented floods, a low tax-to-GDP ratio, a high fiscal deficit, large amounts of public debt, high interest payments, high growth in subsidies on account of circular debt and a resource drain through PSEs. Consequently, the expenditure overrun surpassed the revenue increase, thereby creating pressure on the fiscal deficit. Amid mounting pressures on public spending, the Government has implemented corrective measures to rationalise expenditure and to broaden the tax base. The fiscal deficit was 8 per cent of GDP in 2012-13 compared to 6.6 per cent of GDP in 2011-12 (excluding debt consolidation of Rupees 391 billion arrears of electricity).

Tax Collection. Pakistan has very low tax revenues, which constrains its ability to meet the spending needs arising from the social security system, security challenges and infrastructure required for development of economic growth. The Government has implemented measures to broaden the tax net and improve tax administration. Pakistani authorities are currently executing a plan to:

- incorporate additional potential taxpayers using the Federal Board of Revenue (**FBR**) database. This database contains information on economic transactions and assets of more than 300,000 potential taxpayers;

- increase the issuance of tax notices, principally aimed at potential economic worth (as well as the geographical locations) of potential taxpayers to ensure public perception of the FBR's efforts as a nation-wide effort, to increase issuances of follow-up notices and subsequent tax assessments, as well as to increase the rate of enforcement proceedings;

- develop a full tax administration strategy, including automated systems for individual tax returns, as well as improved customs clearance systems, valuation rulings for imported goods, transit trade security and anti-smuggling plans;

- reduce certain tax exemptions and concessions with the objective of increasing revenues to 1-1.5 per cent of GDP over two years, without increasing tax rates; and

- improve anti-money laundering rules to reduce tax evasion.

The FBR tax collection target for 2012-13 was set at Rupees 2,381 billion, assuming higher economic growth and the tax administration reforms set forth above. The FBR's revenue collection in 2012-13 was Rupees 1,936.1 billion, constituting 2.9 per cent growth compared to the Rupees 1,881.5 billion collected during 2011-12.

For the first six months of 2013-14, gross and net tax collection was Rupees 1,578 billion and Rupees 932 billion respectively, compared to Rupees 1,364 billion and Rupees 772 billion, respectively, in the first six months of 2012-13. The gross collection of direct taxes grew by 15.3 per cent in the first six months of 2013-14 compared to the first six months of 2012-13. Major revenue sources for direct taxes are income tax, capital value tax and withholding tax, voluntary payments and collection on demand. During the first six months of 2013-14, gross collection of indirect taxes grew by 17.7 per cent compared to the first six months of 2012-13 and accounted for 63 per cent of the FBR's total tax revenues.

Allocation of Revenue between the Federal Government and Provinces. The Constitution governs the relationship between the Government and the Provinces with respect to the distribution of a divisible pool of taxes. According to the Constitution, at intervals not exceeding five years, the President forms a National Finance Commission (**NFC**) consisting of the Minister of Finance of the Federal Government, the Minister of Finance of each of the Provincial Governments and such other persons as may be appointed by the President after consultation with the Governors of the Provinces. The NFC then recommends to the President the distribution to be made between the Federation and the Provinces with respect to the divisible pool of taxes consisting of income tax, sales tax, export duties on cotton, excise duties and any other tax that may be specified by the President. The President then, in accordance with the recommendation of the NFC, specifies the share of the taxes to be allocated to the Federation and Provinces. The recommendations of the NFC, together with an explanatory memorandum of action taken thereon, are required to be sent to both Houses and to Provincial Assemblies. Under the Constitution, the President has the power to amend or modify the distribution of revenues prior to making the aforementioned order. The Award delivered by the NFC in December 2009 and signed by the then President of Pakistan in March 2010 was the first such Award by a democratically elected Government in 19 years. The 18th Constitutional Amendment has inserted new provisions in the Constitution stipulating that the share of the Provinces in each NFC Award shall not be less than the share given to the Provinces in the previous Award, and that the Federal and the

Provincial Finance Ministers shall monitor the implementation of the Award biannually and lay their reports before both Houses of Parliament and the Provincial Assemblies.

From 1997 to 2006, the share of the Government in the divisible pool of taxes was fixed at 62.5 per cent while the share of the Provincial Governments was fixed at 37.5 per cent. From 2006-07, the share of the Provincial Governments in the divisible pool rose annually to 41.5 per cent, 42.5 per cent, 43.75 per cent, 45.0 per cent and to 46.25 per cent thereafter.

The NFC Award has historically been based on the single criteria of population. In December 2009, the seventh NFC Award adopted, by consensus, a set of multiple criteria for determining horizontal distribution of resources comprising population (82.0 per cent), poverty and backwardness (10.3 per cent), revenue collection/ generation (5.0 per cent) and inverse population density (2.7 per cent). Under the seventh NFC Award, the share of the Provinces increased from 45 per cent in 2011-12 to 56 per cent in 2012-13, and will further increase to 57.5 per cent in the remaining period of the seventh NFC award. The share of the Government in the net proceeds of the divisible pool was 44 per cent for 2012-13 but will be reduced to 42.5 per cent for 2013-14 onwards. According to the current seventh NFC Award, transfers to provinces have been projected to increase to Rupees 1,077 billion, representing an increase of 51.6 per cent in 2012-13, compared to the transfer of Rupees 710.6 billion in 2011-12.

Expenditure. Total expenditure (**TE**) was Rupees 4,816.3 billion, or 21 per cent of GDP, in 2012-13 compared to Rupees 3,936.2 billion, or 19.1 per cent of GDP, in 2011-12. The increase in TE was principally due to a significant increase in current expenditure, including the cost of running the civil administration (an increase of 19 per cent in 2012-13 compared to 2011-12), mainly due to the impact of higher salaries and allowances for federal Government employees and increased development expenditure.

Current expenditure (**CE**) during 2012-13 significantly exceeded the level of CE during 2011-12 as well as budgeted CE. Increased CE was primarily due to higher than projected spending on defence and security, together with continued government subsidies for energy, food and cash transfers. To address increased current expenditure and ease deficit pressures, the Government restricted development spending to below target levels during 2012-13. Consequently, CE remained at 16.0 per cent of GDP in 2012-13 compared to 15.1 per cent in 2011-12. In order to meet the fiscal target for 2013-14, development spending is expected to remain at 5.1 per cent of GDP.

The following table sets forth fiscal indicators as a per cent of GDP for the periods stated:

	2008-09	**2009-10**	**2010-11**	**2011-12**	**2012-13**
Real GDP growth.......................	0.4	2.6	3.7	4.4	3.6
Overall fiscal deficit....................	5.2	6.3	6.6(1)	6.6(2)	8.0
Expenditure					
Total	19.3	20.5	19.1	19.1	21.0
Current	15.8	16.0	16.3	15.5	16.0
Development and net lending	3.5	4.5	2.8	3.6	5.0
Revenue					
Total	14.1	14.2	12.5	12.4	13.0
Tax	9.2	10.0	9.4	9.9	9.6
Non-tax......................................	4.9	4.1	3.1	2.5	3.4

(1) Includes payment of arrears of electricity subsidies.
(2) Excludes a one-off payment of Rupees 391 billion on account of debt consolidation.

Source: Ministry of Finance

PUBLIC DEBT

Public debt is a measure of governmental indebtedness. It represents the portion of Pakistan's total debt that has a direct charge on government revenues. Pakistan's public debt has two main components, namely domestic debt (which has been incurred principally to finance fiscal deficits) and external debt (which has been raised primarily to finance development expenditure).

Due to the large fiscal deficit that built up over recent years and the unavailability of sufficient external funding, the composition of Pakistan's public debt is weighted in favour of domestic debt, principally in the form of short-term instruments, creating high roll-over and refinancing risk. As at 31 December 2013, domestic debt was approximately Rupees 10,231 billion (39.3 per cent of GDP) and external debt was approximately U.S.$47.5 billion. Given the relatively short maturity structure of domestic borrowing, comprised of Rupees 5,877.8 billion (57.4 per cent of total domestic debt) having a maturity of less than one year and Rupees 2,182.6 billion of domestic debt (21.3 per cent of total domestic debt) in the national savings scheme with maturities of up to ten years but with a put option exercisable at any time, the Government has begun to refinance this debt through the monthly issuance of long-term debt of three to 20 years under its domestic bond programme. In the six months to February 2014, the Government issued Rupees 253,596.5 million with a maturity of three years, Rupees 135.3 billion with a maturity of five years, Rupees 170,295.4 million with a maturity of ten years and Rupees 12,322.7 million with a maturity of 20 years. However, there can be no assurance that the Government will be able to continue to refinance its debt in this way or at all. This may adversely impact the Government's ability to repay existing debt which could limit the Government's ability to implement its economic and structural reforms. In addition, any increase in interest rates has an adverse fiscal effect and any depreciation of the Rupee has an adverse effect on Pakistan's public debt and the servicing thereof. For this reason, Government policy is to maintain exchange rate stability as well as to lengthen the maturity profile of Pakistan's domestic debt and generate general economic growth in order to reduce the impact of growing public indebtedness.

Total public debt (**TPD**) as of 31 December 2013 was Rupees 15,238 billion, representing an increase of Rupees 872 million, or 6 per cent, against TPD as of 30 June 2013, principally due to an increase in domestic debt used to finance the fiscal deficit. As of 30 June 2013 was Rupees 14,366 billion, representing an increase of Rupees 1,699 billion, or a 13 per cent increase, against TPD of Rupees 12,667 billion as of 30 June 2012. This increase in TPD was mainly due to an increase in domestic debt of Rupees 1,880 billion, whereas external debt declined by Rupees 181 billion. The external debt component declined in 2012-13 as a result of fewer external sources of funding, significant repayments of IMF loans and translational gain on account of appreciation of the U.S. dollar against Japanese Yen.

The Fiscal Responsibility and Debt Limitation Act 2005, (the **FRDL Act**) requires that the Government take measures to reduce total public debt and maintain it within prudent limits. One of the FRDL Act's requirements is that TPD be below 60 per cent of GDP in any given year. TPD was 62.7 per cent of GDP on 30 June 2013, which was over the FRDL Act's threshold, principally due to Pakistan's deficit being higher than expected and reflects loans from the IMF amounting to U.S.$4.4 billion, or 1.9 per cent of GDP, as at 30 June 2013. The IMF loans are only applied towards Pakistan's balance of payments and are reflected in its foreign currency reserves. Breach of the FRDL Act's TPD-to-GDP ratio requirement does not result in the Government being legally prevented from further borrowing or any other legal sanctions on the Government or its lenders. Instead, the FRDL Act requires that the Government account to Parliament for any breach in the threshold set in the FRDL Act. As at 31 December 2013, Pakistan's TPD-to-GDP ratio was 58.6 per cent.

During 2012-13, public debt servicing was Rupees 1,209 billion against the budgeted estimate of Rupees 1,178 billion and consumed approximately 41 per cent of government revenues. TPD grew further by 6 per cent during the first six months of 2013-14 to Rupees 15,238 billion, an increase of Rupees 872 billion, principally due to significant rises in the local currency component.

The following table sets for the composition of Pakistan's TPD as at 30 June for the periods stated, and as at 31 December 2013:

	2008-09	**2009-10**	**2010-11**	**2011-12**	**2012-13**[(1)]	**31 December 2013**[(2)]
			(*Rupees billion*)			
Domestic debt............................	3,852	4,648	6,016	7,637	9,517	10,231
External debt..............................	3,776	4,260	4,685	5,016	4,849	5,007
Total public debt	**7,628**	**9,908**	**10,701**	**12,653**	**14,366**	**15,238**
			(*% of GDP*)			
Domestic debt............................	29.2	31.3	32.9	38.0	41.5	39.3
External debt..............................	28.6	28.7	25.6	25.0	21.2	19.3
Total public debt	**57.8**	59.9	**58.5**	**63.0**	**62.7**	**58.6**
			(*% of revenues*)			
Domestic debt............................	208.1	223.8	267.0	297.6	319.1	-
External debt..............................	204.0	205.0	208.0	195.4	162.6	-
Total public debt	**412.1**	**428.8**	**475.0**	**493.0**	**481.7**	**-**
			(*% of total debt*)			
Domestic debt............................	50.5	52.2	56.2	60.4	66.2	67.1
External debt..............................	49.5	47.8	43.8	39.6	33.8	32.9
Foreign currency debt (*U.S.$ billion*)	46.4	49.8	54.5	53.1	48.7	48.8
Exchange rate (*Rupees/U.S.$ at end of period*)..........................	81.4	85.5	86.0	94.5	99.7	105.3
GDP (*Rupees billion*)	13,200	14,867	18,285	20,091	22,909	26,001
Total revenue (*Rupees billion*).....	1,851	2,078	2,253	2,567	2,982	-

(1) Provisional pending National Assembly approval in May 2014 of Pakistan's economic data for 2012-13.
(2) Provisional pending National Assembly approval in May 2015 of Pakistan's economic data for 2013-14.

Source: State Bank of Pakistan and Ministry of Finance

Domestic Debt

Domestic debt is broadly classified as permanent (medium and long-term), floating (short-term) and unfunded debt (made up of the various investments available through Pakistan's National Savings Scheme). Domestic debt represents a charge on Pakistan's budget and is serviced through government revenues and additional government borrowing.

Government borrowing from domestic sources in 2012-13 was higher than the overall fiscal deficit as net external debt payments had to be made from domestic sources due to insufficient external inflows. Pakistan's domestic debt increased by Rupees 1,880 billion to Rupees 9,517 billion, or 41.6 per cent of GDP, at 30 June 2013, compared with 38 per cent at 30 June 2012. In 2012-13, the Government relied heavily on short term domestic borrowing, which further increased its exposure to refinancing and interest rate risk. The volume of floating debt (short term treasury bills) reached Rupees 5.2 trillion, or 36 per cent of TPD, in 2012-13 compared with 25 per cent of TPD in 2008-09. As at 31 December 2013, outstanding domestic debt was Rupees 10,231 billion.

The following table provides a summary of outstanding domestic debt as at 30 June for the periods stated, and as at 31 December 2013:

	2008-09	2009-10	2010-11	2011-12	2012-13(1)	31 December 2013(2)
			(Rupees billion)			
Permanent debt(3)...................	678.0	794.8	1,124.4	1,695.9	2,174.7	2,170.8
Floating debt(4)	1,904.0	2,396.4	3,235.4	4,143.1	5,196.2	5,877.8
Unfunded debt(5).....................	1,270.5	1,457.5	1,655.8	1,798.0	2,146.5	2,182.6
Total	**3,852.5**	**4,647.7**	**6,015.5**	**7,637.0**	**9,517.4**	**10,231.2**
			(% of GDP)			
Permanent debt(3)...................	5.1	5.3	6.1	8.4	9.5	8.3
Floating debt(4)	14.4	16.1	17.7	20.6	22.7	22.6
Unfunded debt(5).....................	9.6	9.8	9.1	8.9	9.4	8.4
Total	**29.2**	**31.3**	**32.9**	**38.0**	**41.5**	**39.3**
			(% of Total Domestic Debt)			
Permanent debt(3)...................	17.6	17.1	18.7	22.2	22.9	21.2
Floating debt(4)	49.4	51.6	53.8	54.3	54.6	57.4
Unfunded debt(5).....................	33.0	31.3	27.5	23.5	22.6	21.3
GDP at market price (*Rupees billion*)....................	**13,199.7**	**14,867.0**	**18,284.9**	**20,090.9**	**22,909.1**	**26,001.0**

(1) Provisional pending National Assembly approval in May 2014 of Pakistan's economic data for 2012-13.
(2) Provisional pending National Assembly approval in May 2015 of Pakistan's economic data for 2013-14.
(3) Permanent debt consists principally of medium-to-long term instruments, including Pakistan Investment Bonds (PIBs), Government Ijara Sukuk bonds and Prize Bonds. PIBs are non-callable instruments with fixed and semi-annual coupon payments and have maturities of three, five, ten and 20 years. Government Ijara Sukuk are medium term *Shari'ah* compliant bonds currently issued with three year maturities. Permanent debt constituted 23 per cent of Pakistan's total domestic debt in 2012-13.
(4) Floating debt consists of short term domestic instruments such as treasury bills and SBP borrowing through the purchase of market related treasury bills. Treasury bills are zero coupon or discounted instruments issued with maturities of three months (16 per cent of current treasury bills), six months (31 per cent of treasury bills) and 12 months (63 per cent of treasury bills) as at 30 June 2013. The Government borrows from Pakistan's domestic banks through auctions of treasury bills. Such auctions are arranged by the SBP twice a month. Floating debt constituted 55 per cent of Pakistan's total domestic debt in as at 30 June 2013.
(5) Unfunded debt is made up of various instruments available under the National Savings Scheme (**NSS**). A number of different schemes are offered under NSS with maturities ranging from three to ten years. This debt is unfunded because investors benefit from put-options at any time over the life of the instruments they hold.

Source: Ministry of Finance

Over the last five years, the composition of domestic debt has moved from a high percentage of unfunded debt to increased dependence on floating debt. In 2012-13, unfunded debt comprised 23 per cent of domestic debt, while floating debt comprised 55 per cent of domestic debt. The average maturity of domestic debt in 2012-13 was 1.8 years, and 64 per cent of TPD had a maturity of less than a year. This exposes Pakistan to significant refinancing risks as the redemption profile on its floating domestic debt is front-loaded and, accordingly, increases in interest rates adversely affect such debt and the servicing of it. For this reason, the Government is taking measures to rebalance Pakistan's domestic debt profile by developing a long-term debt capital market.

The following table provides a summary of outstanding domestic debt service requirements for the periods indicated, and as at 31 December 2013:

		2008-09	2009-10	2010-11	2011-12	2012-13[1]	31 December 2013[2]
Domestic outstanding debt	(*Rupees billion*)	3,852.5	4,647.7	6,015.5	7,637.0	9,517.4	10,231.2
Interest payments		558.7	578.3	629.7	821.1	920.4	559.3
Tax revenue..............	(*Domestic interest payment in % of*)	46.4	39.3	37.1	40.0	41.8	47.7
Total revenue............		30.2	27.8	28.0	32.0	30.9	33.2
Total expenditure		22.1	19.2	18.3	20.9	19.1	25.1
Current expenditure ..		27.4	24.2	21.7	26.3	25.1	29.6
GDP..........................		4.2	3.9	3.4	4.1	4.0	2.2

(1) Provisional pending National Assembly approval in May 2014 of Pakistan's economic data for 2012-13.
(2) Provisional pending National Assembly approval in May 2015 of Pakistan's economic data for 2013-14.

Source: Ministry of Finance

External Debt

Pakistan's External Debt and Liabilities (**EDL**) (both public and private) represent a charge on Pakistan's revenues as well as a charge on its balance of payments. EDL is serviced from foreign exchange earnings, drawdowns from reserves and additional borrowings. EDL include all foreign currency debt contracted by the public and private sector, as well as foreign exchange liabilities of the SBP. As at 30 June 2013, EDL was dominated by Public and Publically Guaranteed (**PPG**) debt, comprising 74 per cent of all EDL. This debt was principally obtained from multilateral and bilateral counterparties. Debt obligations of the private sector in 2012-13 were limited and constituted only 5 per cent of EDL. Borrowing from the IMF contributed 7 per cent in EDL in 2012-13, compared with 11 per cent at the end of June 2012 owing to significant repayment during 2012-13.

External loans are contracted by Pakistan in various currencies and disbursements and effectively converted into Rupees. As the Rupee is not an internationally traded currency, other currencies are bought and sold by buying and selling U.S. dollars. Accordingly, Pakistan is exposed to currency exchange risk between the U.S. dollar and the foreign currencies of the various external loans, as well as between the U.S. dollar and the Rupee. The Rupee depreciated against the U.S. dollar on average by 8 per cent per annum for 2008-09 to 2012-13, resulting in an increase in Pakistan's external debt in local currency. Pakistan's loss on foreign currency debt is mitigated by the concessional terms associated with its external loans - such as low servicing costs and extended maturities - such that the cost of adverse currency movements and existing external debt rates is still lower than the cost of domestic debt by approximately 0.9 per cent over the last five years. Accordingly, the Government's policy is to borrow through these channels. The principal exchange rate risk for Pakistan is from loans denominated in U.S. dollars, Japanese Yen and Euro. Pakistan does not hedge its foreign currency denominated external debt.

The following table summarises Pakistan's external debt as at 30 June for the periods stated, and as at 31 December 2013:

	2008-09	2009-10	2010-11	2011-12	2012-13[1]	31 December 2013[2]
				(*U.S.$ million*)		
1. Public and publicly guaranteed (**PPG**) debt.....................................	42.6	43.1	46.5	46.4	44.4	44.5

	2008-09	2009-10	2010-11	2011-12	2012-13[1]	31 December 2013[2]
(a) Medium and long term (>l year)..........................	41.9	42.2	45.9	46.0	44.4	44.0
(b) Short term (<1 year)........	0.7	0.9	0.6	0.4	0.0	0.5
2. Private Sector Debt....................	2.4	3.8	4.4	3.6	3.1	3.0
3. Public sector non-guaranteed enterprises (PSEs' debt)...............................	0.9	1.4	1.3	1.3	1.2	1.4
4. IMF	5.1	8.1	8.9	7.3	4.4	3.6
5. Banks...	-	0.7	1.1	1.8	1.6	1.8
6. Debt liabilities to direct investors - intercompany debt.....	-	1.9	1.6	2.7	2.8	2.8
Total external debt (1 through 6)..	**51.1**	**59.0**	**63.8**	**63.1**	**57.5**	**57.1**
7. Foreign exchange liabilities.........	1.3	2.6	2.6	2.4	2.3	2.3
Total external debt and liabilities (1 through 7).................	**52.3**	**61.6**	**66.4**	**65.5**	**59.8**	**59.4**
(of which) public debt.....................	46.4	49.8	54.5	53.1	48.7	47.5
Official liquid reserves....................	9.1	13.1	15.7	10.9	6.0	3.6
				(*% of GDP*)		
Total external debt (1 through 6)..	**30.4**	**33.2**	**29.8**	**28.0**	**24.2**	**23.0**
1. Public and publicly guaranteed (**PPG**) debt.....................................	25.4	24.3	21.7	20.6	18.8	18.0
(a) Medium and long term (>l year)..........................	25.0	23.8	21.4	20.4	18.7	17.8
b) Short Term (<1 year)........	0.4	0.5	0.3	0.2	0.0	0.2
2. Private sector debt (>1 year).......	1.4	2.1	2.0	1.6	1.3	1.2
3. Public sector enterprises (PSEs' debt)..............................	0.5	0.8	0.6	0.6	0.5	0.6
4. IMF	3.0	4.6	4.2	3.3	1.9	1.4
5. Banks...	0.0	0.4	0.5	0.8	0.7	0.7
6. Debt liabilities to direct investors – intercompany debt........	0.0	1.1	0.8	1.2	1.2	1.1
7. Foreign exchange liabilities.........	0.8	1.5	1.2	1.1	1.0	0.9
Total external debt and liabilities (1 through 7).................	**31.1**	**34.7**	**31.0**	**29.1**	**25.3**	**23.9**

	2008-09	2009-10	2010-11	2011-12	2012-13[(1)]	31 December 2013[(2)]
Official liquid reserves	5.4	7.4	7.3	4.8	2.6	1.4
Notes:						
GDP (*Rupees billion*)	13,200	14,867	18,285	20,091	22,909	26,001
Exchange Rate (*Rupees/U.S.$, period average*)[(3)]	78.6	83.9	85.5	89.2	96.9	105.0
Exchange Rate (*Rupees/U.S.$, end of June*)	81.4	85.5	86.0	94.5	99.7	105.7
GDP (*U.S.$ billion*)	167.9	177.2	213.9	225.1	238.7	247.6

(1) Provisional pending National Assembly approval in May 2014 of Pakistan's economic data for 2012-13.
(2) Provisional pending National Assembly approval in May 2015 of Pakistan's economic data for 2013-14.
(3) Additional reliance may be placed on commercial financing from multilateral and bilateral sources.

Source: State Bank of Pakistan, except for the line item '(of which) public debt' which is provided by the Ministry of Finance

The servicing of EDL recorded a significant increase of 19 per cent during 2012-13, principally due to repayments of U.S.$3 billion of IMF loans. EDL servicing was U.S.$6.5 billion in 2012-13, U.S.$5.6 billion of which were to repay principal on maturing facilities and U.S.$933 million was used to pay interest. During the first quarter of 2013-14, servicing of external debt was U.S.$1.8 billion, of which U.S.$1.6 billion was used to repay principal and U.S.$191 million was used to pay interest. Significant repayments under IMF loans will continue through 2014-15. See "– *Relationship of Multilateral and Bilateral Creditors*".

The following table sets forth scheduled or projected repayments of EDL for the periods stated:

Counterparty	First Six Months 2014	2014-15[(1)]	2015-16[(1)]	2016-17[(1)]	2017-18[(1)]	2018-22[(1)]
				(*U.S.$ million*)		
Bilateral						
Principal	1310.7	540.8	598.0	704.9	984.3	4706.8
Interest	202.0	368.2	353.2	338.5	318.7	996.6
Sub-total	1512.7	909.0	951.2	1043.5	1303.0	5703.4
Multilateral						
Principal	608.2	1562.5	1336.8	1355.2	1400.7	5333.3
Interest	209.2	302.7	273.3	252.0	230.9	712.2
Sub-total	817.4	1865.2	1610.1	1607.2	1631.6	6045.4
IMF						
Principal	1992.9	1126.0	56.4	-	45.6	91.2[(2)]
Interest	32.8	15.9	7.1	6.7	6.6	6.1[(2)]
Sub-total	2025.6	1141.9	63.5	6.7	52.2	97.3[(2)]
Bonds						
Principal	-	-	500.0	750.0	-	-
Interest	55.4	110.8	110.8	75.2	23.6	94.5
Sub-total	55.4	110.8	610.8	825.2	23.6	94.5
Total	**4,411.1**	**4026.9**	**3237.6**	**3482.5**	**3010.5**	**11940.7**

(1) Projected.
(2) Only 2018-19.

Source: Ministry of Finance

***Public and Publicly Guaranteed* (*PPG*) *Debt*.** PPG debt consists of all loans and bonds contracted by the Government. These include medium and long-term obligations from multilateral and bilateral creditors, Pakistani sovereign bonds, commercial debt and short-term debt which is contracted mostly through the Islamic Development Bank. PPG also includes loan and bonds on which the Government acts as guarantor. Guarantees are usually provided to improve the financial viability of projects and activities undertaken by government entities with significant social and economic benefit to Pakistan, allowing public sector companies to borrow at lower cost or on more favourable terms. The guarantee is a contingent liability of the Government and may arise when events wholly outside the control of the Government occur. Such guarantees are not added to the overall debt of Pakistan. As of 30 September 2013, the Government had entered into guarantees totalling Rupees 677 billion, 56 per cent of which were denominated in Rupees. In addition, it entered into counter-guarantees in commodity financing operations of Rupees 571 billion as of 30 June 2013, which reduced to Rupees 513 billion as of 30 September 2013.

Annual debt obligations have increased since 2008-09 and totalled U.S.$6,485 million in 2012-13. U.S.$1,155 million of multilateral debt, together with U.S.$2,899 million of IMF repayment, accounted for most of these obligations. This was the first time Pakistan made such large principal repayments of debt in a single year. The external debt servicing obligation of Pakistan is expected to be substantial through the end of 2014-15 as additional significant repayments to the IMF are required.

EDL was U.S.$59.4 billion as at 31 December 2013, out of which public external debt amounted to U.S.$47.5 billion. The IMF approved a three year Extended Fund Facility programme for Pakistan on 4 September 2013 for SDR 4.4 billion (U.S.$6.6 billion). During the first six months of 2013-14, Pakistan's external debt recorded a translational gain of U.S.$17million due to cross-currency movement against U.S. dollar.

Debt servicing of PPG, a component of EDL, constituted U.S.$2.6 billion in 2012-13 compared to U.S.$2.3 billion in 2011-12 and U.S.$2.7 billion in 2010-11.

Pakistan has issued bonds in the international capital markets. It has three international bonds outstanding: (i) U.S.$500 million 7.125 per cent due 31 March 2016; (ii) U.S.$750 million 6.875 per cent due 1 June 2017; and (iii) U.S.$300 million 7.875 per cent due 31 March 2036.

Public Debt Management. The Government has policies in place to help improve macroeconomic stability which will help to meet its repayment obligations on external debt, stabilising the exchange rate and reducing the rollover and refinancing risk associated with domestic debt. Additional reliance may be placed on concessional financing from multilateral and bilateral sources. The Government has adopted a medium-term-debt management strategy to reduce the costs of borrowing and debt servicing in view of higher domestic interest rates and the need of reliance on short-term domestic lending that has arisen from the lack of available external inflows. In addition to the macro-economic reforms the Government has initiated, which the IMF has supported under the terms of the Extended Fund Facility, Government policy is also to make greater use of the international debt capital markets to raise debt, to increase maturity profiles in Pakistan's domestic wholesale market, to increase distribution channels for government debt instruments to retail investors and to maintain adequate inflows from multilateral and bilateral sources.

Debt Restructuring

Paris Club. In 2001, Pakistan approached the Paris Club to seek debt relief and a rescheduling of its external bilateral debt. Pursuant to this, U.S.$12.7 billion (principal plus accumulated arrears) was restructured so as to provide repayment over 38 years, with a 15 year grace period, at an interest rate at least as favourable as the concessional rates applicable to the original loan. Commercial loans were also agreed to be repaid over 23 years, with a five year grace period, at appropriate market rates. Bilateral rescheduling agreements were signed with all Paris Club and non-Paris Club creditors. Debt servicing of all loans, including rescheduled loans, is being maintained by the Government.

Relationship with Multilateral and Bilateral Creditors

Pakistan receives economic assistance from multilateral and bilateral creditors. In 2012-13, 55 per cent of its PPG external debt obligations were with multilateral creditors, while 41 per cent were with bilateral creditors and 4 per cent were with respect to its outstanding international bonds.

Pakistan received assistance from the following multilateral creditors:

IMF. Since 1988, Pakistan has entered into various lending arrangements with the IMF such as Stand-by Arrangements (**SBA)**, a Poverty Reduction and Growth Facility (**PRGF**), an Extended Fund Facility (defined below) and a Contingency and Compensatory Financing Facility. SBA are designed to provide short-term financial assistance, while Extended Fund Facilities give medium-term assistance to members with balance of payments problems resulting from structural economic changes, as is the case with Pakistan. Contingency and Compensatory Financing Facilities compensate for shortfalls in earnings and help maintain adjustment programmes resulting from severe external economic problems.

On 6 December 2001, the IMF approved a PRGF for Pakistan worth SDR1.034 billion (approximately U.S.$1.322 billion). The PRGF was a three year concessional loan in support of poverty reduction. PRGF-supported programmes were included in a related Poverty Reduction Strategy Paper that was required by the IMF and provided the basis for assistance under the facility. PRGF loans carry a fixed annual interest rate of 0.5 per cent and are repayable over ten years, with a 66-month grace period on principal payments. Pakistan has undergone all IMF reviews under the PRGF and met all quantitative performance criteria. Of the approved amount of U.S.$1.322 billion, U.S.$1.186 billion has been drawn down. Pakistan voluntarily decided not to draw the last tranche of U.S.$136 million.

Pakistan entered into SBA with the IMF for SDR 5.169 billion (U.S.$7.6 billion) in November 2008. The amount was subsequently increased to SDR 7.236 billion (U.S.$11.327 billion). Initially, the entire amount was to be disbursed in seven quarterly reviews. But after the fourth quarterly review, the IMF approved re-phasing of the three remaining disbursements into two, while keeping the total access under the arrangement unchanged. The IMF has disbursed U.S.$7,425.5 million under SBA since 24 November 2008. The IMF also disbursed U.S.$452.5 million under on Emergency Natural Disaster Assistance framework to help Pakistan manage the impact of the 2010 floods and to protect the most vulnerable. The IMF remains committed to ongoing dialogue with Pakistan and discussions continue to complete the programme.

A 36 month SDR 4,393 million (U.S.$6.64 billion) extended arrangement under the Extended Fund Facility (the **Extended Fund Facility**) was approved by the IMF on 4 September 2013 under a three-year programme, and to date Pakistan has received over U.S.$1.6 billion in three tranches under the Extended Fund Facility. The third tranche of SDR 360 million (approximately U.S.$555 million) was made available to Pakistan in March 2014 following the IMF's second review of Pakistan's economic performance. The IMF has performed two quarterly reviews of the Pakistan economy since the Government came to office in May 2013, publishing its revised reports in January and March 2014, respectively. Pakistan either met, or the IMF waived, all required criteria for the release of the first, second and third tranches under the Extended Fund Facility.

World Bank. The World Bank provides financing to Pakistan for budgetary support, project loans and credits and trust funds, covering rural development, infrastructure, social development, power, trade and transport, finance and governance. The International Bank of Reconstruction and Development (**IBRD**), has extended loans worth U.S.$897.2 million, of which U.S.$688.7 million is to be disbursed over the next four years. The loans carry interest of 6-month LIBOR plus 0.5 per cent per annum and have an average maturity of 18 years, including grace periods (during which only interest is paid). In addition, the Government is in negotiations with the IBRD for a loan of U.S.$500 million for a power sector reform programme, and another U.S.$500 million loan for a growth, investment and competitiveness programme. As at 31 December 2013, U.S.$1.36 billion was outstanding to the IBRD. The International Development Association (**IDA**) has extended loans worth U.S.$3.3 billion, of which U.S.$1.3 billion has been disbursed. The balance of U.S.$2.0 billion is to be disbursed over the next four years. The loans carry interest of 0.85 per cent per annum and have an average maturity of 40 years, including grace periods of ten years. As at 31 December 2013, U.S.$11.4 billion was outstanding to the IDA. The Government and the IDA are currently in negotiations for additional financing of development projects.

Asian Development Bank*.* ADB is currently providing loans through the Asian Development Fund (**ADF**) and Ordinary Capital Resources (**OCR**). Loans totalling U.S.$917 million are currently in place through ADF, of which U.S.$123.1 million has been disbursed. The balance of U.S.$794.8 million is to be disbursed over the next four years. The loans carry interest of 2 per cent per annum and have a 25 year maturity (with a five year grace period). ADB is also providing Pakistan with loans through OCR totalling U.S.$3.5 billion, of which U.S.$2.4 billion is available for disbursement. The loans carry interest at a rate of 6-month LIBOR plus 0.4 basis points and have a 25 year maturity (with a five year grace period). The ADB has also recently approved a loan of U.S.$900 million for the Jamshoro Power Project which is expected to be disbursed over the next two years. In addition, negotiations with the ADB for a U.S.$1 billion loan for the Government's power sector reform programme are scheduled for April 2014. As at 31 December 2013, U.S.$10.34 billion of debt was outstanding to the ADB. The Government and ADB are currently in negotiations for additional financing to support the medium term economic reform agenda the Government has agreed with the IMF.

Islamic Development Bank. Loans amounting to U.S.$1.0 billion are currently available with the IDB, of which U.S.$300 million have been disbursed. These loans carry interest rates of between 3 and 5.1 per cent and have maturities between 15 to 20 years. IDB has also provided two short-term loans totalling U.S.$274 million, each carrying an interest rate of 2.78 per cent and with one year maturities.

Total debt outstanding to IDB with maturities of between 15 and 25 years was U.S.$760 million as of 31 December 2013, and an additional U.S.$275 million repayable within one year. Pakistan has also received total grants amounting to U.S.$14.5 million as of December 2013.

The IDB participates in equity capital, operates special funds, mobilises financial resources through *Shari'ah* compliant methods, promotes foreign trade and provides technical assistance to member countries. The IDB also provides short term financing to encourage import and export activities among member countries. Pakistan has been using these facilities primarily in respect of its petroleum import requirements. The IDB is implementing a three year partnership strategy with a view to providing financing facilities of up to U.S.$3 billion to Pakistan.

Pakistan has also received bilateral economic assistance from 47 different countries. The most economically material of these arrangements are as follows:

- ***China***. Pakistan has loans with China totalling U.S.$9.9 billion, out of which an amount of U.S.$1.6 billion has been disbursed, with the remainder to be disbursed over the next five years. The loans carry aggregate interest rates of 3.2 per cent per annum, with repayment over 15-20 years, including 5-8 years of grace period. Pakistan and China have also agreed to implement projects worth U.S.$13.3 billion under a five year development programme through 2016. Since 2006, China has provided grants of U.S.$464 million. Of this, U.S.$361 million has been utilised on various projects and relief items. The debt outstanding to China as at 31 December 2013 was U.S.$4.2 billion.

- ***European Union***. Since 1976, the European Union (**EU**) has provided assistance primarily for poverty alleviation and social sector development. The EU committed €50 million each year from 2007 to 2010, with that commitment being increased to €75 million for each year from 2011 to 2013 and €93.2 million each year from 2014 to 2020, a total of €653 million from 2014-2020. The EU has provided U.S.$187 million of assistance in respect of the 2010 floods. In November 2013, the European Investment Bank extended a €100 million loan to the Government to help fund the construction of the Keyal Khwar Hydropower project. The loan is for 20 years, including a five year grace period.

- ***France***. France is currently providing loans of €304 million, of which U.S.$75 million has been disbursed. As of 31 December 2013, U.S.$2,101 million of debt was outstanding to France.

- ***Japan*****.** Japan has been a bilateral development partner of Pakistan for over 60 years. Currently there are active loans totalling U.S.$1.25 billion, under which U.S.$490 million has been disbursed. These loans carry interest rates of between 0.15-1.40 per cent with repayment schedules of between 20-40 years, including 5-10 year grace periods. Japan also provided grants for water, health, counter-terrorism and cultural purposes. Japan has also stated its willingness to provide Yen dominated loans during 2013-14. As at 31 December 2013, U.S.$6,171 million of debt was outstanding to Japan.

- ***Saudi Arabia***. Loans totalling U.S.$575 million are currently in place with Saudi Arabia. The loans are provided at an interest rate of 2 per cent per annum, with a repayment period of 20 years, including five years of grace. Total debt outstanding to Saudi Arabia was U.S.$401 million as of 31 December 2013.

- ***United Arab Emirates***. Pakistan has received significant amounts of assistance from the UAE since 1974. Funds have been used for, among other things, balance of payments support, drought assistance and other infrastructure projects. At the 2009 Tokyo Donor Conference, the UAE pledged U.S.$300 million in grants for road and health programmes. The Abu Dhabi Development Fund has committed U.S.$100 million for the co-financing of the Neelum-Jhelum Hydropower Project.

- ***United Kingdom***. For the period 2002 to 2013, the U.K. has extended approximately £640 million for development assistance as non-repayable grants. Under a new Operational Plan 2011-15, the U.K. has increased its support for Pakistan to U.S.$2,214 million of which U.S.$746 million has been disbursed, making Pakistan the largest recipient of the U.K.'s development assistance in the world. As of 31 December 2013, U.S.$9 million of debt was outstanding to the U.K.

- ***United States.*** On September 2010, the U.S. Government and Pakistan signed the Pakistan Enhanced Partnership Agreement (**PEPA**) under which the U.S. Government committed to provide U.S.$7.5 billion (U.S.$1.5 billion each year) between 2010 and 2014 to Pakistan in the form of non-repayable grants. Sectors which benefit from the assistance include energy security, food security, social development and affected areas. Through September 2013, U.S.$4 billion has been disbursed through the PEPA. As of 31 December 2013, U.S.$1.4 billion of debt was outstanding to the U.S.

Other sources of bilateral financing include France (active loans U.S.$300 million), Kuwait (active loans U.S.$217 million), Italy (active loans U.S.$135 million) and Korea (active loans U.S.$56 million).

A number of Pakistan's foreign partners provide grant assistance (with no repayment obligations) for poverty alleviation, social sector development, post disaster relief and reconstruction, rural development and human resource development. The European Union, Oman, Canada and Norway have provided such grant assistance.

TERMS AND CONDITIONS OF THE 2019 NOTES

The following is the text of the Terms and Conditions of the 2019 Notes which (subject to modification and except for the paragraphs in italics) will be endorsed on the Certificates issued in respect of the 2019 Notes:

The U.S.$1,000,000,000 7.25 per cent notes due 2019 (the **Notes**, which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 14 and forming a single series with the Notes) of The President of the Islamic Republic of Pakistan for and on behalf of the Islamic Republic of Pakistan (the **Issuer**) are issued subject to and with the benefit of a fiscal agency agreement dated 15 April 2014 (such agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) made between the Issuer, Citigroup Global Markets Deutschland AG as registrar (the **Registrar**), Citibank, N.A., London Branch as fiscal agent (the **Fiscal Agent**) and as paying agent (together with the Fiscal Agent, the **Paying Agent**) (together with the Fiscal Agent, the Registrar and any other paying agent, the **Agents**).

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Agency Agreement. Copies of the Agency Agreement are available during normal business hours by the holders of the Notes (the **Noteholders**) at the specified office of the Paying Agent. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. References in these Conditions to the Fiscal Agent, the Registrar, the Paying Agent and the Agents shall include any successor appointed under the Agency Agreement.

*Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**) will initially hold Notes represented by the Unrestricted Global Certificate on behalf of their participants through their respective depositaries. Transfers within The Depositary Trust Company (**DTC**), Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant system. Cross-market transfers between investors who hold or who will hold Notes through DTC and investors who hold or will hold Notes through Euroclear and Clearstream, Luxembourg will be effected in DTC through the respective depositaries of Euroclear and Clearstream, Luxembourg, subject to certain restrictions. The owners shown in the records of Euroclear, Clearstream, Luxembourg, and DTC of book-entry interests in Notes are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them.*

1 Form, Denomination and Title

1.1 Form and Denomination

The Notes are issued in registered form in amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (referred to as the **principal amount** of a Note). A note certificate (each a **Certificate**) will be issued to each Noteholder in respect of its registered holding of Notes. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Noteholders which the Issuer will procure to be kept by the Registrar.

The Notes are not issuable in bearer form.

1.2 Title

Title to the Notes passes only by registration in the register of Noteholders. The holder of any Note will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions **Noteholder** and (in relation to a Note) **holder** means the person in whose name a Note is registered in the register of Noteholders.

For a description of the procedures for transferring title to book-entry interests in the Notes, see "Clearing and Settlement Arrangements".

2 Transfers of Notes and Issue of Certificates

2.1 Transfers

A Note may be transferred by depositing the Certificate issued in respect of that Note, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar or any of the Agents.

For a description of certain restrictions on transfers of interests in the Notes, see "Transfer Restrictions".

2.2 Delivery of new Certificates

Notes represented by Certificates issued in exchange for interests in the Restricted Global Certificate shall be **Restricted Notes**. Notes represented by Certificates issued in exchange for the Unrestricted Global Certificate shall be **Unrestricted Notes**. Each new Certificate to be issued upon transfer or exchange of Notes will, within five business days of receipt by the Registrar or the relevant Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Note to the address specified in the form of transfer. For the purposes of this Condition, **business day** shall mean a day on which commercial banks and foreign exchange markets are open for business in the city in which the specified office of the Agent with whom a Certificate is deposited in connection with a transfer is located.

Except in the limited circumstances described herein (see "The Global Certificates – Registration of Title" and "The Global Certificates – Exchange for Certificates"), owners of interests in the Notes will not be entitled to receive physical delivery of Certificates. The issue of Certificates upon transfer of Notes is subject to compliance by the transferor and transferee with the certification procedures described above and in the Agency Agreement and, in the case of Restricted Notes, compliance with the relevant Securities Act legend (see "Plan of Distribution").

Where some but not all of the Notes in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Notes not so transferred will, within five business days of receipt by the Registrar or the relevant Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Notes not so transferred to the address of such holder appearing on the register of Noteholders or as specified in the form of transfer.

2.3 Formalities free of charge

Registration of transfer of Notes will be effected, without charge by or on behalf of the Issuer or any Agent, upon payment (or the giving of such indemnity as the Issuer or any Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

2.4 Closed Periods

No Noteholder may require the transfer of a Note to be registered during the period of 15 days ending on the due date for any payment of principal or interest on that Note.

2.5 Regulations

All transfers of Notes and entries on the register of Noteholders will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests one. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

3 Status

The Notes are direct, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and (subject as provided above) rank and will rank *pari passu,* without any preference among themselves, with all other present and future unsecured and unsubordinated External Indebtedness (as defined in Condition 10.2) of the Issuer. The due and punctual payment of the Notes and the performance of the obligations of the Issuer with respect thereto are backed by the full faith and credit of the Issuer.

4 Negative Pledge

4.1 Negative Pledge

So long as any Note remains outstanding (as defined in the Agency Agreement) the Issuer will not, save for the exceptions set out below in Condition 4.3, create, incur, assume or permit to subsist any Security upon the whole or any part of its assets or revenues to secure (i) any of its Public External Indebtedness; (ii) any of its Guarantees in respect of Public External Indebtedness; or (iii) the Public External Indebtedness of any other person, without at the same time or prior thereto securing the Notes equally and rateably therewith or providing such other arrangement (whether or not comprising Security) as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of Noteholders.

4.2 Interpretation

In these Conditions:

(a) **Guarantee** means any obligation of a person to pay the Indebtedness of another person including without limitation:

(i) an obligation to pay or purchase such Indebtedness;

(ii) an obligation to lend money or to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(iii) an indemnity against the consequences of a default in the payment of such Indebtedness; or

(iv) any other agreement to be responsible for such Indebtedness;

(b) **Indebtedness** means any obligation (whether present or future) for the payment or repayment of money which has been borrowed or raised (including money raised by acceptances and leasing, whether on an Islamic basis or otherwise);

(c) **person** means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having a separate legal personality;

(d) **Public External Indebtedness** means any Indebtedness which (i) is payable, or at the option of the relevant creditor may be payable, in any currency other than Pakistani Rupees; and (ii) is in the form of, or is represented by, bonds, notes or other securities with a stated maturity of more than one year from the date of issue which may be quoted, listed or ordinarily purchased or sold on any stock exchange, automated trading system, over the counter or other securities market; and

(e) **Security** means any mortgage, pledge, lien, hypothecation, security interest or other charge or encumbrance or preferential arrangement which has the practical effect of constituting a security interest (which, for the avoidance of doubt, does not include

Islamic sale and leaseback (*Sukuk alijara*) financing) whether in effect on the date of the Agency Agreement or thereafter.

4.3 Exceptions

The following exceptions apply to the Issuer's obligations under paragraph 4.1 of this Condition:

(a) any Security upon property to secure Public External Indebtedness of the Issuer incurred for the purpose of financing the acquisition of such property and any renewal and extension of such Security which is limited to the original property covered thereby and which (in either case) secures any renewal or extension of the original secured financing;

(b) any Security existing on property at the time of its acquisition to secure Public External Indebtedness of the Issuer and any renewal or extension of any such Security which is limited to the original property covered thereby and which secures any renewal or extension of the original secured financing;

(c) any Security arising by operation of law (or pursuant to any agreement establishing a Security equivalent to one which would otherwise exist under relevant local law) in connection with Public External Indebtedness; and

(d) any Security securing Public External Indebtedness of the Issuer or any Guarantee by the Issuer of Public External Indebtedness of any other person incurred for the purpose of financing all or part of the costs of the acquisition, construction or development of a project; provided that (A) the holders of such Public External Indebtedness or Guarantee expressly agree to limit their recourse to the assets and revenues of such project or the proceeds of insurance thereon as the principal source of repayments of such Public External Indebtedness and (B) the property over which such Security is granted consists solely of such assets and revenues.

The State Bank of Pakistan holds International Monetary Assets (as defined in Condition 10.2), including gold and foreign exchange. Because the State Bank of Pakistan is a juridical entity separate from the Issuer, the Issuer believes that the Notes' negative pledge covenant does not apply to the International Monetary Assets held by the State Bank of Pakistan. The State Bank of Pakistan could therefore incur Public External Indebtedness secured by International Monetary Assets without securing amounts payable under the Notes equally and rateably.

5 Interest

5.1 Interest Rate and Interest Payment Dates

The Notes bear interest from and including 15 April 2014 to but excluding the Maturity Date (as defined in Condition 7.1) at the rate of 7.25 per cent per annum, payable semi-annually in arrears on 15 October and 15 April in each year (each an **Interest Payment Date**). The first payment (representing six months' interest) shall be made on 15 October 2014.

5.2 Interest Accrual

Each Note will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue until whichever is the earlier of:

(a) the date on which all amounts due in respect of such Note have been paid; and

(b) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Fiscal Agent and notice to that effect has been given to the Noteholders in accordance with Condition 12.

5.3 Calculation of Broken Interest

When interest is required to be calculated in respect of a period other than for a six month period, it shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

6 Payments

6.1 Payments in respect of Notes

Payment of principal and interest will be made by transfer to the registered account of the Noteholder or by a cheque in U.S. dollars drawn on a bank that processes payments in U.S. dollars mailed to the registered address of the Noteholder if it does not have a registered account. Payment of principal will only be made against presentation and surrender of the relevant Certificate at the specified office of any of the Agents. Interest on Notes due on an Interest Payment Date will be paid to the holder shown on the register of Noteholders at the close of business on the date (the **record date**) being the fifteenth day before the due date for the payment of interest.

For the purposes of this Condition, a Noteholder's registered account means the U.S. dollar account maintained by or on behalf of it with a bank that processes payments in U.S. dollars, details of which appear on the register of Noteholders at the close of business, in the case of principal, on the second Business Day (as defined below) before the due date for payment and, in the case of interest, on the relevant record date, and a Noteholder's **registered address** means its address appearing on the register of Noteholders at that time.

6.2 Payments subject to Applicable Laws

Payments in respect of principal and interest on Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 8.

6.3 No commissions

No commissions or expenses shall be charged to the Noteholders in respect of any payments made in accordance with this Condition.

6.4 Payment on Business Days

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Business Day, for value the first following day which is a Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed, on the Business Day preceding the due date for payment or, in the case of a payment of principal, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of an Agent.

Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day, if the Noteholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

In this Condition **Business Day** means a day (other than a Saturday or Sunday) on which commercial banks are open for general business in London, New York City and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

6.5 Partial Payments

If the amount of principal or interest which is due on the Notes is not paid in full, the Registrar will annotate the register of Noteholders with a record of the amount of principal or interest in fact paid.

6.6 Agents

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that there will at all times be:

(a) a Fiscal Agent, a Registrar, a Paying Agent and a Transfer Agent;

(b) so long as the Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market, and the rules of that exchange so require, a Paying Agent and a Transfer Agent in Luxembourg; and

(c) a Paying Agent in a Member State of the European Union (if any) that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

Notice of any termination or appointment and of any changes in specified offices will be given to the Noteholders promptly by the Issuer in accordance with Condition 12.

7 Redemption and Purchase

7.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 15 April 2019 (the **Maturity Date**).

7.2 Purchases

The Issuer may at any time purchase Notes in the open market or otherwise at any price.

7.3 Cancellations

All Notes so purchased shall be cancelled and may not be held, reissued or resold.

8 Taxation

8.1 Payment without Withholding

All payments in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note:

(a) presented for payment by or on behalf of a holder who is liable to the Taxes in respect of the Note by reason of his having some connection with the Relevant Jurisdiction, other than the mere holding of the Note; or

(b) presented for payment more than 30 days after the Relevant Date (as defined below), except to the extent that the relevant holder would have been entitled to such additional amounts if it had presented such Note for payment on the last day of such period of 30 days assuming, whether or not such is in fact the case, that day to have been a Business Day (as defined in Condition 6); or

(c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union.

8.2 Interpretation

In these Conditions:

(a) **Relevant Date** means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Fiscal Agent on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 12; and

(b) **Relevant Jurisdiction** means the Islamic Republic of Pakistan (**Pakistan**) or any political subdivision or any authority thereof or therein having power to tax in respect of payments made by it of principal and interest on the Notes.

8.3 Additional Amounts

Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition.

9 Prescription

Claims in respect of principal and interest will become prescribed unless made within 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date, as defined in Condition 8.

10 Events of Default

10.1 Events of Default

If any of the following events (**Events of Default**) shall have occurred and be continuing:

(a)

(i) the Issuer fails to pay any principal on any of the Notes when due and payable; or

(ii) the Issuer fails to pay any interest on any of the Notes or any amount due under Condition 8 when due and payable and such failure continues for a period of 10 days; or

(b) the Issuer does not perform or comply with any one or more of its other obligations in the Notes, which default is incapable of remedy or is not remedied within 30 days following the service by any Noteholder on the Issuer of notice requiring the same to be remedied; or

(c)

(i) the acceleration of the maturity (other than by optional or mandatory prepayment or redemption) of any External Indebtedness of the Issuer; or

(ii) any default in the payment of principal of, or premium or prepayment charge (if any) or interest on, any External Indebtedness of the Issuer shall occur when and as the same shall become due and payable if such default shall continue for more than the period of grace, if any, applicable thereto; or

(iii) any default in the payment when due and called upon (after the expiry of any applicable grace period) of any Guarantee of the Issuer in respect of any External Indebtedness of any other person,

provided that the aggregate amount of the relevant External Indebtedness in respect of which one or more of the events mentioned in this paragraph (c) have occurred equals or exceeds U.S.$25,000,000 or its equivalent; or

(d) a moratorium on the payment of principal of, or interest on, the External Indebtedness of the Issuer shall be declared by the Issuer; or

(e) the Issuer shall cease to be a member of the International Monetary Fund (**IMF**) or shall cease to be eligible to use the general resources of the IMF; or

(f)

(i) the validity of the Notes shall be contested by the Issuer; or

(ii) the Issuer shall deny any of its obligations under the Notes (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise); or

(iii) it shall be or become unlawful for the Issuer to perform or comply with all or any of its obligations set out in the Notes, including, without limitation, the payment of interest on the Notes, as a result of any change in law or regulation in Pakistan or any ruling of any court in Pakistan whose decision is final and unappealable or for any reason such obligations cease to be in full force and effect; or

(g) any regulation, decree, consent, approval, licence or other authority necessary to enable the Issuer to make or perform its obligations under the Notes, or for the validity or enforceability thereof, shall expire, be withheld, revoked, terminated or otherwise cease to remain in full force and effect, or shall be modified in a manner which adversely affects any rights or claims of any of the Noteholders; or

(h) the Issuer or the State Bank of Pakistan shall not at all times exercise full ownership, power and control over any of their respective International Monetary Assets as they exist from time to time unless, prior to the occurrence of such an event, a public sector entity that has substantially all of the powers and assets of the State Bank of Pakistan (including, without limitation, all of its International Monetary Assets) and performs the functions of the central bank shall assume and acquire such assets, powers and functions,

then upon the occurrence of any such Event of Default the holder of any Note may give notice to the Issuer, through the Fiscal Agent, that the Note is, and it shall accordingly forthwith become, immediately due and repayable at its principal amount, together with interest accrued to the date of repayment, unless prior to receipt of such demand by the Issuer all such Events of Default shall have been cured, provided, however, that any notice declaring any Note due and repayable shall become effective only when the Fiscal Agent has received such notice from holders of not less than 25 per cent in aggregate principal amount of the Notes then outstanding. If any Event of Default shall give rise to a declaration which shall be effective and all Events of Default shall cease to continue following such declaration, then such declaration may be rescinded and annulled by the adoption of an Extraordinary Resolution in accordance with the procedures set forth in Condition 13 below or of a written resolution of the holders of not less than two-thirds in aggregate principal amount of the Notes then outstanding.

10.2 Interpretation

As used herein:

External Indebtedness means Indebtedness expressed or denominated or payable or which, at the option of the relevant creditor, may be payable in a currency other than Pakistani Rupees; and

International Monetary Assets means all (i) gold; (ii) Special Drawing Rights; (iii) Reserve Positions in the Fund; and (iv) Foreign Exchange, and the terms **Special Drawing Rights**, **Reserve Positions in the Fund** and **Foreign Exchange** have, as to the types of assets included, the meanings given to them in the IMF's publication entitled "International Financial Statistics" or such other meanings as shall be formally adopted by the IMF from time to time.

11 Replacement of Certificates

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12 Notices

All notices to the Noteholders will be valid if mailed to them at their respective addresses in the register of Noteholders maintained by the Registrar. So long as the Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market and the rules of that exchange so require, the Issuer will also publish notices to the holders of the Notes in a leading newspaper having general circulation in Luxembourg (which is expected to be the Luxemburger Wort) or in a daily newspaper of international circulation including Luxembourg (which is expected to be the *Financial Times*) or arrange to make such notices available on the website of the Luxembourg Stock Exchange at http://www.bourse.lu. Any notice shall be deemed to have been given on the first day to occur of (i) the day after being so mailed; or (ii) the date of publication or, if so published more than once or on different dates, on the date of the first publication.

13 Meetings of Noteholders and Modification

13.1 Meetings of Noteholders

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Agency Agreement. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that at any meeting the business of which includes the modification or abrogation of certain of these Conditions or certain of the provisions of the Agency Agreement the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, of the principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting.

In addition, consent given by way of (i) an electronic consent through the relevant clearing system in accordance with the Agency Agreement; or (ii) a signed written resolution, in each case, by or on behalf of Noteholders of at least 90 per cent in aggregate principal amount of Notes for the time being outstanding who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders. **Extraordinary Resolution** is defined in the Agency Agreement as a resolution duly passed by not less than 90 per cent of the votes cast.

13.2 Modification

The Fiscal Agent may agree, without the consent of the Noteholders, to any modification of any of these Conditions or any of the provisions of the Agency Agreement either (i) for the purpose of curing any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained herein or therein; or (ii) in any other manner which is, in the sole opinion of the Issuer, not materially prejudicial to the interests of the Noteholders. Any modification shall be binding on the Noteholders and, unless the Fiscal Agent agrees otherwise, any modification shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 12.

14 Further Issues

The Issuer may, from time to time without the consent of the Noteholders, create and issue further notes, having terms and conditions the same as those of the Notes, or the same except for the amount of the first payment of interest, which may be consolidated and form a single series with the outstanding Notes, provided that either (i) such additional notes do not have, for purposes of U.S. federal income taxation (regardless of whether any holders of such notes are subject to the U.S. federal income tax laws), a greater amount of original issue discount than the Notes as of the date of issuance of such additional notes; or (ii) such additional securities are issued in a “qualified reopening” for U.S. federal income tax purposes.

15 Governing Law and Submission to Jurisdiction

15.1 Governing Law

The Agency Agreement and the Notes, and any non-contractual obligations arising out of or in connection with either of the Agency Agreement or the Notes, are governed by, and will be construed in accordance with, English law.

15.2 Jurisdiction

The Issuer irrevocably submits to the jurisdiction of the courts of England sitting in London, England and the courts of Pakistan (the **Specified Courts**) over any suit, action or proceeding against it or its properties, assets or revenues with respect to the Notes (a **Related Proceeding**). The Issuer hereby waives any objection to Related Proceedings in such courts whether on the grounds of venue, residence or domicile or on the ground that the Related Proceedings have been brought in an inconvenient forum. The Issuer hereby agrees that a final non-appealable judgment obtained in any such Related Proceeding (a **Related Judgment**) shall be conclusive and binding upon it and may be enforced in any Specified Court or in any other courts to the jurisdiction of which the Issuer is or may be subject (the **Other Courts**), by a suit upon such judgment or appropriate enforcement proceedings in Pakistan.

15.3 Appointment of Process Agent

The Issuer has appointed the High Commission for Pakistan in London, presently located at 34-36 Lowndes Square, London SW1X 9JN as its agent in England to receive service of process and hereby undertakes that, in the event of the High Commission for Pakistan ceasing so to act or ceasing to be located in England, it will appoint another person as its agent for service of process in England in respect of any Related Proceedings. The Issuer agrees that failure by a process agent to notify the Issuer of the process will not invalidate proceedings concerned or service of the process. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

15.4 Waiver of Immunity

To the extent that the Issuer or any of its revenues, assets or properties are entitled, in any jurisdiction in which any Specified Court is located, in which any Related Proceeding may at any time be brought against it or any of its revenues, assets or properties, or in any jurisdiction in which any Specified Court or Other Court is located in which any suit, action or proceeding may at any time be brought solely for the purpose of enforcing or executing any Related Judgment, to any immunity from suit, from the jurisdiction of any such court, from setoff, from attachment prior to judgment, from attachment in aid of execution of a judgment, from execution of a judgment or from any other legal or judicial process or remedy, and to the extent that in any such jurisdiction there shall be attributed such an immunity, the Issuer hereby irrevocably agrees not to claim and hereby irrevocably waives such immunity to the fullest extent permitted by the laws of such jurisdiction (and hereby consents generally for the purposes of the State Immunity Act 1978 to the giving of any relief or the issue of any process in connection with any Related Proceeding or Related Judgment) provided that such agreement and waiver, insofar as it relates to any jurisdictions other than a jurisdiction in which any Specified Court is located, is given solely for the purposes of enabling a Noteholder to enforce or execute a Related Judgment. The waiver of immunities given above constitutes only a limited and specific waiver for the purposes of the Notes and under no circumstances shall it be interpreted as a general waiver by the Issuer or a waiver with respect to proceedings unrelated to the Notes. The Issuer does not hereby waive such immunity in respect of property which is (i) used by a diplomatic or consular mission of the Issuer (except as may be necessary to effect service of process); (ii) property of a military character and under the control of a military authority or defence agency; or (iii) located in Pakistan and dedicated to a public or governmental use (as distinct from patrimonial property or property dedicated to a commercial use).

16 Rights of Third Parties

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term or condition of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

TERMS AND CONDITIONS OF THE 2024 NOTES

The following is the text of the Terms and Conditions of the 2024 Notes which (subject to modification and except for the paragraphs in italics) will be endorsed on the Certificates issued in respect of the 2024 Notes:

The U.S.$1,000,000,000 8.25 per cent notes due 2024 (the **Notes**, which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 14 and forming a single series with the Notes) of The President of the Islamic Republic of Pakistan for and on behalf of the Islamic Republic of Pakistan (the **Issuer**) are issued subject to and with the benefit of a fiscal agency agreement dated 15 April 2014 (such agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) made between the Issuer, Citigroup Global Markets Deutschland AG as registrar (the **Registrar**), Citibank, N.A., London Branch as fiscal agent (the **Fiscal Agent**) and as paying agent (together with the Fiscal Agent, the **Paying Agent**) (together with the Fiscal Agent, the Registrar and any other paying agent, the **Agents**).

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Agency Agreement. Copies of the Agency Agreement are available during normal business hours by the holders of the Notes (the **Noteholders**) at the specified office of the Paying Agent. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. References in these Conditions to the Fiscal Agent, the Registrar, the Paying Agent and the Agents shall include any successor appointed under the Agency Agreement.

*Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**) will initially hold Notes represented by the Unrestricted Global Certificate on behalf of their participants through their respective depositaries. Transfers within The Depositary Trust Company (**DTC**), Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant system. Cross-market transfers between investors who hold or who will hold Notes through DTC and investors who hold or will hold Notes through Euroclear and Clearstream, Luxembourg will be effected in DTC through the respective depositaries of Euroclear and Clearstream, Luxembourg, subject to certain restrictions. The owners shown in the records of Euroclear, Clearstream, Luxembourg, and DTC of book-entry interests in Notes are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them.*

1 Form, Denomination and Title

1.1 Form and Denomination

The Notes are issued in registered form in amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (referred to as the **principal amount** of a Note). A note certificate (each a **Certificate**) will be issued to each Noteholder in respect of its registered holding of Notes. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Noteholders which the Issuer will procure to be kept by the Registrar.

The Notes are not issuable in bearer form.

1.2 Title

Title to the Notes passes only by registration in the register of Noteholders. The holder of any Note will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions **Noteholder** and (in relation to a Note) **holder** means the person in whose name a Note is registered in the register of Noteholders.

For a description of the procedures for transferring title to book-entry interests in the Notes, see "Clearing and Settlement Arrangements".

2 Transfers of Notes and Issue of Certificates

2.1 Transfers

A Note may be transferred by depositing the Certificate issued in respect of that Note, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar or any of the Agents.

For a description of certain restrictions on transfers of interests in the Notes, see "Transfer Restrictions".

2.2 Delivery of new Certificates

Notes represented by Certificates issued in exchange for interests in the Restricted Global Certificate shall be **Restricted Notes**. Notes represented by Certificates issued in exchange for the Unrestricted Global Certificate shall be **Unrestricted Notes**. Each new Certificate to be issued upon transfer or exchange of Notes will, within five business days of receipt by the Registrar or the relevant Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Note to the address specified in the form of transfer. For the purposes of this Condition, **business day** shall mean a day on which commercial banks and foreign exchange markets are open for business in the city in which the specified office of the Agent with whom a Certificate is deposited in connection with a transfer is located.

Except in the limited circumstances described herein (see "The Global Certificates – Registration of Title" and "The Global Certificates – Exchange for Certificates"), owners of interests in the Notes will not be entitled to receive physical delivery of Certificates. The issue of Certificates upon transfer of Notes is subject to compliance by the transferor and transferee with the certification procedures described above and in the Agency Agreement and, in the case of Restricted Notes, compliance with the relevant Securities Act legend (see "Plan of Distribution").

Where some but not all of the Notes in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Notes not so transferred will, within five business days of receipt by the Registrar or the relevant Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Notes not so transferred to the address of such holder appearing on the register of Noteholders or as specified in the form of transfer.

2.3 Formalities free of charge

Registration of transfer of Notes will be effected, without charge by or on behalf of the Issuer or any Agent, upon payment (or the giving of such indemnity as the Issuer or any Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

2.4 Closed Periods

No Noteholder may require the transfer of a Note to be registered during the period of 15 days ending on the due date for any payment of principal or interest on that Note.

2.5 Regulations

All transfers of Notes and entries on the register of Noteholders will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests one. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

3 Status

The Notes are direct, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and (subject as provided above) rank and will rank *pari passu,* without any preference among themselves, with all other present and future unsecured and unsubordinated External Indebtedness (as defined in Condition 10.2) of the Issuer. The due and punctual payment of the Notes and the performance of the obligations of the Issuer with respect thereto are backed by the full faith and credit of the Issuer.

4 Negative Pledge

4.1 Negative Pledge

So long as any Note remains outstanding (as defined in the Agency Agreement) the Issuer will not, save for the exceptions set out below in Condition 4.3, create, incur, assume or permit to subsist any Security upon the whole or any part of its assets or revenues to secure (i) any of its Public External Indebtedness; (ii) any of its Guarantees in respect of Public External Indebtedness; or (iii) the Public External Indebtedness of any other person, without at the same time or prior thereto securing the Notes equally and rateably therewith or providing such other arrangement (whether or not comprising Security) as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of Noteholders.

4.2 Interpretation

In these Conditions:

(a) **Guarantee** means any obligation of a person to pay the Indebtedness of another person including without limitation:

   (i) an obligation to pay or purchase such Indebtedness;

   (ii) an obligation to lend money or to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

   (iii) an indemnity against the consequences of a default in the payment of such Indebtedness; or

   (iv) any other agreement to be responsible for such Indebtedness;

(b) **Indebtedness** means any obligation (whether present or future) for the payment or repayment of money which has been borrowed or raised (including money raised by acceptances and leasing, whether on an Islamic basis or otherwise);

(c) **person** means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having a separate legal personality;

(d) **Public External Indebtedness** means any Indebtedness which (i) is payable, or at the option of the relevant creditor may be payable, in any currency other than Pakistani Rupees; and (ii) is in the form of, or is represented by, bonds, notes or other securities with a stated maturity of more than one year from the date of issue which may be quoted, listed or ordinarily purchased or sold on any stock exchange, automated trading system, over the counter or other securities market; and

(e) **Security** means any mortgage, pledge, lien, hypothecation, security interest or other charge or encumbrance or preferential arrangement which has the practical effect of constituting a security interest (which, for the avoidance of doubt, does not include

Islamic sale and leaseback (*Sukuk alijara*) financing) whether in effect on the date of the Agency Agreement or thereafter.

4.3 Exceptions

The following exceptions apply to the Issuer's obligations under paragraph 4.1 of this Condition:

(a) any Security upon property to secure Public External Indebtedness of the Issuer incurred for the purpose of financing the acquisition of such property and any renewal and extension of such Security which is limited to the original property covered thereby and which (in either case) secures any renewal or extension of the original secured financing;

(b) any Security existing on property at the time of its acquisition to secure Public External Indebtedness of the Issuer and any renewal or extension of any such Security which is limited to the original property covered thereby and which secures any renewal or extension of the original secured financing;

(c) any Security arising by operation of law (or pursuant to any agreement establishing a Security equivalent to one which would otherwise exist under relevant local law) in connection with Public External Indebtedness; and

(d) any Security securing Public External Indebtedness of the Issuer or any Guarantee by the Issuer of Public External Indebtedness of any other person incurred for the purpose of financing all or part of the costs of the acquisition, construction or development of a project; provided that (A) the holders of such Public External Indebtedness or Guarantee expressly agree to limit their recourse to the assets and revenues of such project or the proceeds of insurance thereon as the principal source of repayments of such Public External Indebtedness and (B) the property over which such Security is granted consists solely of such assets and revenues.

The State Bank of Pakistan holds International Monetary Assets (as defined in Condition 10.2), including gold and foreign exchange. Because the State Bank of Pakistan is a juridical entity separate from the Issuer, the Issuer believes that the Notes' negative pledge covenant does not apply to the International Monetary Assets held by the State Bank of Pakistan. The State Bank of Pakistan could therefore incur Public External Indebtedness secured by International Monetary Assets without securing amounts payable under the Notes equally and rateably.

5 Interest

5.1 Interest Rate and Interest Payment Dates

The Notes bear interest from and including 15 April 2014 to but excluding the Maturity Date (as defined in Condition 7.1) at the rate of 8.25 per cent per annum, payable semi-annually in arrears on 15 October and 15 April in each year (each an **Interest Payment Date**). The first payment (representing six months' interest) shall be made on 15 October 2014.

5.2 Interest Accrual

Each Note will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue until whichever is the earlier of:

(a) the date on which all amounts due in respect of such Note have been paid; and

(b) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Fiscal Agent and notice to that effect has been given to the Noteholders in accordance with Condition 12.

5.3 Calculation of Broken Interest

When interest is required to be calculated in respect of a period other than for a six month period, it shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

6 Payments

6.1 Payments in respect of Notes

Payment of principal and interest will be made by transfer to the registered account of the Noteholder or by a cheque in U.S. dollars drawn on a bank that processes payments in U.S. dollars mailed to the registered address of the Noteholder if it does not have a registered account. Payment of principal will only be made against presentation and surrender of the relevant Certificate at the specified office of any of the Agents. Interest on Notes due on an Interest Payment Date will be paid to the holder shown on the register of Noteholders at the close of business on the date (the **record date**) being the fifteenth day before the due date for the payment of interest.

For the purposes of this Condition, a Noteholder's registered account means the U.S. dollar account maintained by or on behalf of it with a bank that processes payments in U.S. dollars, details of which appear on the register of Noteholders at the close of business, in the case of principal, on the second Business Day (as defined below) before the due date for payment and, in the case of interest, on the relevant record date, and a Noteholder's **registered address** means its address appearing on the register of Noteholders at that time.

6.2 Payments subject to Applicable Laws

Payments in respect of principal and interest on Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 8.

6.3 No commissions

No commissions or expenses shall be charged to the Noteholders in respect of any payments made in accordance with this Condition.

6.4 Payment on Business Days

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Business Day, for value the first following day which is a Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed, on the Business Day preceding the due date for payment or, in the case of a payment of principal, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of an Agent.

Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day, if the Noteholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

In this Condition **Business Day** means a day (other than a Saturday or Sunday) on which commercial banks are open for general business in London, New York City and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

6.5 Partial Payments

If the amount of principal or interest which is due on the Notes is not paid in full, the Registrar will annotate the register of Noteholders with a record of the amount of principal or interest in fact paid.

6.6 Agents

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that there will at all times be:

(a) a Fiscal Agent, a Registrar, a Paying Agent and a Transfer Agent;

(b) so long as the Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market, and the rules of that exchange so require, a Paying Agent and a Transfer Agent in Luxembourg; and

(c) a Paying Agent in a Member State of the European Union (if any) that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

Notice of any termination or appointment and of any changes in specified offices will be given to the Noteholders promptly by the Issuer in accordance with Condition 12.

7 Redemption and Purchase

7.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 15 April 2024 (the **Maturity Date**).

7.2 Purchases

The Issuer may at any time purchase Notes in the open market or otherwise at any price.

7.3 Cancellations

All Notes so purchased shall be cancelled and may not be held, reissued or resold.

8 Taxation

8.1 Payment without Withholding

All payments in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note:

(a) presented for payment by or on behalf of a holder who is liable to the Taxes in respect of the Note by reason of his having some connection with the Relevant Jurisdiction, other than the mere holding of the Note; or

(b) presented for payment more than 30 days after the Relevant Date (as defined below), except to the extent that the relevant holder would have been entitled to such additional amounts if it had presented such Note for payment on the last day of such period of 30 days assuming, whether or not such is in fact the case, that day to have been a Business Day (as defined in Condition 6); or

(c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union.

8.2 Interpretation

In these Conditions:

(a) **Relevant Date** means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Fiscal Agent on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 12; and

(b) **Relevant Jurisdiction** means the Islamic Republic of Pakistan (**Pakistan**) or any political subdivision or any authority thereof or therein having power to tax in respect of payments made by it of principal and interest on the Notes.

8.3 Additional Amounts

Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition.

9 Prescription

Claims in respect of principal and interest will become prescribed unless made within 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date, as defined in Condition 8.

10 Events of Default

10.1 Events of Default

If any of the following events (**Events of Default**) shall have occurred and be continuing:

(a)

(i) the Issuer fails to pay any principal on any of the Notes when due and payable; or

(ii) the Issuer fails to pay any interest on any of the Notes or any amount due under Condition 8 when due and payable and such failure continues for a period of 10 days; or

(b) the Issuer does not perform or comply with any one or more of its other obligations in the Notes, which default is incapable of remedy or is not remedied within 30 days following the service by any Noteholder on the Issuer of notice requiring the same to be remedied; or

(c)

(i) the acceleration of the maturity (other than by optional or mandatory prepayment or redemption) of any External Indebtedness of the Issuer; or

(ii) any default in the payment of principal of, or premium or prepayment charge (if any) or interest on, any External Indebtedness of the Issuer shall occur when and as the same shall become due and payable if such default shall continue for more than the period of grace, if any, applicable thereto; or

(iii) any default in the payment when due and called upon (after the expiry of any applicable grace period) of any Guarantee of the Issuer in respect of any External Indebtedness of any other person,

provided that the aggregate amount of the relevant External Indebtedness in respect of which one or more of the events mentioned in this paragraph (c) have occurred equals or exceeds U.S.$25,000,000 or its equivalent; or

(d) a moratorium on the payment of principal of, or interest on, the External Indebtedness of the Issuer shall be declared by the Issuer; or

(e) the Issuer shall cease to be a member of the International Monetary Fund (**IMF**) or shall cease to be eligible to use the general resources of the IMF; or

(f)

(i) the validity of the Notes shall be contested by the Issuer; or

(ii) the Issuer shall deny any of its obligations under the Notes (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise); or

(iii) it shall be or become unlawful for the Issuer to perform or comply with all or any of its obligations set out in the Notes, including, without limitation, the payment of interest on the Notes, as a result of any change in law or regulation in Pakistan or any ruling of any court in Pakistan whose decision is final and unappealable or for any reason such obligations cease to be in full force and effect; or

(g) any regulation, decree, consent, approval, licence or other authority necessary to enable the Issuer to make or perform its obligations under the Notes, or for the validity or enforceability thereof, shall expire, be withheld, revoked, terminated or otherwise cease to remain in full force and effect, or shall be modified in a manner which adversely affects any rights or claims of any of the Noteholders; or

(h) the Issuer or the State Bank of Pakistan shall not at all times exercise full ownership, power and control over any of their respective International Monetary Assets as they exist from time to time unless, prior to the occurrence of such an event, a public sector entity that has substantially all of the powers and assets of the State Bank of Pakistan (including, without limitation, all of its International Monetary Assets) and performs the functions of the central bank shall assume and acquire such assets, powers and functions,

then upon the occurrence of any such Event of Default the holder of any Note may give notice to the Issuer, through the Fiscal Agent, that the Note is, and it shall accordingly forthwith become, immediately due and repayable at its principal amount, together with interest accrued to the date of repayment, unless prior to receipt of such demand by the Issuer all such Events of Default shall have been cured, provided, however, that any notice declaring any Note due and repayable shall become effective only when the Fiscal Agent has received such notice from holders of not less than 25 per cent in aggregate principal amount of the Notes then outstanding. If any Event of Default shall give rise to a declaration which shall be effective and all Events of Default shall cease to continue following such declaration, then such declaration may be rescinded and annulled by the adoption of an Extraordinary Resolution in accordance with the procedures set forth in Condition 13 below or of a written resolution of the holders of not less than two-thirds in aggregate principal amount of the Notes then outstanding.

10.2 Interpretation

As used herein:

External Indebtedness means Indebtedness expressed or denominated or payable or which, at the option of the relevant creditor, may be payable in a currency other than Pakistani Rupees; and

International Monetary Assets means all (i) gold; (ii) Special Drawing Rights; (iii) Reserve Positions in the Fund; and (iv) Foreign Exchange, and the terms **Special Drawing Rights**, **Reserve Positions in the Fund** and **Foreign Exchange** have, as to the types of assets included, the meanings given to them in the IMF's publication entitled "International Financial Statistics" or such other meanings as shall be formally adopted by the IMF from time to time.

11 Replacement of Certificates

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12 Notices

All notices to the Noteholders will be valid if mailed to them at their respective addresses in the register of Noteholders maintained by the Registrar. So long as the Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market and the rules of that exchange so require, the Issuer will also publish notices to the holders of the Notes in a leading newspaper having general circulation in Luxembourg (which is expected to be the Luxemburger Wort) or in a daily newspaper of international circulation including Luxembourg (which is expected to be the *Financial Times*) or arrange to make such notices available on the website of the Luxembourg Stock Exchange at http://www.bourse.lu. Any notice shall be deemed to have been given on the first day to occur of (i) the day after being so mailed; or (ii) the date of publication or, if so published more than once or on different dates, on the date of the first publication.

13 Meetings of Noteholders and Modification

13.1 Meetings of Noteholders

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Agency Agreement. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that at any meeting the business of which includes the modification or abrogation of certain of these Conditions or certain of the provisions of the Agency Agreement the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, of the principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting.

In addition, consent given by way of (i) an electronic consent through the relevant clearing system in accordance with the Agency Agreement; or (ii) a signed written resolution, in each case, by or on behalf of Noteholders of at least 90 per cent in aggregate principal amount of Notes for the time being outstanding who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders. **Extraordinary Resolution** is defined in the Agency Agreement as a resolution duly passed by not less than 90 per cent of the votes cast.

13.2 Modification

The Fiscal Agent may agree, without the consent of the Noteholders, to any modification of any of these Conditions or any of the provisions of the Agency Agreement either (i) for the purpose of curing any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained herein or therein; or (ii) in any other manner which is, in the sole opinion of the Issuer, not materially prejudicial to the interests of the Noteholders. Any modification shall be binding on the Noteholders and, unless the Fiscal Agent agrees otherwise, any modification shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 12.

14 Further Issues

The Issuer may, from time to time without the consent of the Noteholders, create and issue further notes, having terms and conditions the same as those of the Notes, or the same except for the amount of the first payment of interest, which may be consolidated and form a single series with the outstanding Notes, provided that either (i) such additional notes do not have, for purposes of U.S. federal income taxation (regardless of whether any holders of such notes are subject to the U.S. federal income tax laws), a greater amount of original issue discount than the Notes as of the date of issuance of such additional notes; or (ii) such additional securities are issued in a "qualified reopening" for U.S. federal income tax purposes.

15 Governing Law and Submission to Jurisdiction

15.1 Governing Law

The Agency Agreement and the Notes, and any non-contractual obligations arising out of or in connection with either of the Agency Agreement or the Notes, are governed by, and will be construed in accordance with, English law.

15.2 Jurisdiction

The Issuer irrevocably submits to the jurisdiction of the courts of England sitting in London, England and the courts of Pakistan (the **Specified Courts**) over any suit, action or proceeding against it or its properties, assets or revenues with respect to the Notes (a **Related Proceeding**). The Issuer hereby waives any objection to Related Proceedings in such courts whether on the grounds of venue, residence or domicile or on the ground that the Related Proceedings have been brought in an inconvenient forum. The Issuer hereby agrees that a final non-appealable judgment obtained in any such Related Proceeding (a **Related Judgment**) shall be conclusive and binding upon it and may be enforced in any Specified Court or in any other courts to the jurisdiction of which the Issuer is or may be subject (the **Other Courts**), by a suit upon such judgment or appropriate enforcement proceedings in Pakistan.

15.3 Appointment of Process Agent

The Issuer has appointed the High Commission for Pakistan in London, presently located at 34-36 Lowndes Square, London SW1X 9JN as its agent in England to receive service of process and hereby undertakes that, in the event of the High Commission for Pakistan ceasing so to act or ceasing to be located in England, it will appoint another person as its agent for service of process in England in respect of any Related Proceedings. The Issuer agrees that failure by a process agent to notify the Issuer of the process will not invalidate proceedings concerned or service of the process. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

15.4 Waiver of Immunity

To the extent that the Issuer or any of its revenues, assets or properties are entitled, in any jurisdiction in which any Specified Court is located, in which any Related Proceeding may at any time be brought against it or any of its revenues, assets or properties, or in any jurisdiction in which any Specified Court or Other Court is located in which any suit, action or proceeding may at any time be brought solely for the purpose of enforcing or executing any Related Judgment, to any immunity from suit, from the jurisdiction of any such court, from setoff, from attachment prior to judgment, from attachment in aid of execution of a judgment, from execution of a judgment or from any other legal or judicial process or remedy, and to the extent that in any such jurisdiction there shall be attributed such an immunity, the Issuer hereby irrevocably agrees not to claim and hereby irrevocably waives such immunity to the fullest extent permitted by the laws of such jurisdiction (and hereby consents generally for the purposes of the State Immunity Act 1978 to the giving of any relief or the issue of any process in connection with any Related Proceeding or Related Judgment) provided that such agreement and waiver, insofar as it relates to any jurisdictions other than a jurisdiction in which any Specified Court is located, is given solely for the purposes of enabling a Noteholder to enforce or execute a Related Judgment. The waiver of immunities given above constitutes only a limited and specific waiver for the purposes of the Notes and under no circumstances shall it be interpreted as a general waiver by the Issuer or a waiver with respect to proceedings unrelated to the Notes. The Issuer does not hereby waive such immunity in respect of property which is (i) used by a diplomatic or consular mission of the Issuer (except as may be necessary to effect service of process); (ii) property of a military character and under the control of a military authority or defence agency; or (iii) located in Pakistan and dedicated to a public or governmental use (as distinct from patrimonial property or property dedicated to a commercial use).

16 Rights of Third Parties

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term or condition of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

THE GLOBAL CERTIFICATES

The Global Certificates contain the following provisions which apply to the Notes in respect of which they are issued whilst they are represented by the Global Certificates, some of which modify the effect of the Conditions. Terms defined in the Conditions have the same meaning in paragraphs 1 to 6 below. This section should be construed as applying separately to each of the 2019 Notes and the 2024 Notes.

1 Form of the Notes

The Notes sold in reliance on Regulation S (**Regulation S**) under the United States Securities Act of 1933 (the **Securities Act**) will be represented on issue by an unrestricted global certificate (the **Unrestricted Global Certificate**), which will be deposited with, and registered in the name of a nominee for the common depositary for, Euroclear and Clearstream, Luxembourg. Beneficial interests in an Unrestricted Global Certificate may be held only through Euroclear or Clearstream, Luxembourg or their participants at any time. By acquisition of a beneficial interest in an Unrestricted Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it acquired such beneficial interest in accordance with Regulation S and that it will only offer, sell, pledge or otherwise transfer such beneficial interest in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S. See "*Plan of Distribution*" and "*Transfer Restrictions*".

The Notes sold in reliance on Rule 144A under the Securities Act (**Rule 144A**) (the **Restricted Global Certificates**) will be represented on issue by one or more Restricted Global Certificates, which will be deposited with a custodian for, and registered in the name of a nominee of, DTC. Beneficial interests in a Restricted Global Certificate may only be held through DTC or its participants at any time. Beneficial interests in a Restricted Global Certificate may only be held by persons who are QIBs, holding their interests for their own account or for the account of one or more QIBs. By acquisition of a beneficial interest in a Restricted Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in such Restricted Global Certificate. See "*Plan of Distribution*".

The Unrestricted Global Certificate and the Restricted Global Certificates are referred to herein as the **Global Certificates**. Beneficial interests in Global Certificates will be subject to certain restrictions on transfer set out therein and under "*Transfer Restrictions*" and in the Agency Agreement and such Global Certificates will bear a legend as set out under "*Plan of Distribution*".

No beneficial interest in an Unrestricted Global Certificate may be transferred to a person who takes delivery in the form of a beneficial interest in a Restricted Global Certificate unless (i) the transfer is to a person that is a QIB; (ii) such transfer is made in reliance on Rule 144A; and (iii) the transferor provides the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transferor reasonably believes that the transferee is a QIB, that the transfer is being made in a transaction meeting the requirements of Rule 144A and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. No beneficial interest in a Restricted Global Certificate may be transferred to a person who takes delivery in the form of a beneficial interest in an Unrestricted Global Certificate unless the transfer is in an offshore transaction in reliance on Regulation S and the transferor provides the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transfer is being made in accordance with Regulation S.

Any beneficial interest in an Unrestricted Global Certificate that is transferred to a person who takes delivery in the form of an interest in a Restricted Global Certificate will, upon transfer, cease to be an interest in such Unrestricted Global Certificate and become an interest in a Restricted Global Certificate, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in a Restricted Global Certificate for as long as it remains such an interest. Any beneficial interest in a Restricted

Global Certificate that is transferred to a person who takes delivery in the form of an interest in an Unrestricted Global Certificate will, upon transfer, cease to be an interest in each Restricted Global Certificate and become an interest in the Unrestricted Global Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in an Unrestricted Global Certificate for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Issuer may require payment of a sum sufficient to cover any tax or other duty payable in connection therewith.

Except in the limited circumstances described below, owners of beneficial interests in the Global Certificates will not be entitled to receive physical delivery of Notes.

2 Account Holders

For so long as any of the Notes are represented by one or more Global Certificates, each person (other than another clearing system) who is for the time being shown in the records of DTC or Euroclear or Clearstream, Luxembourg (as the case may be) as the holder of a particular aggregate principal amount of such Notes (each an **Accountholder**) (in which regard any certificate or other document issued by DTC or Euroclear or Clearstream, Luxembourg (as the case may be) as to the aggregate principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such aggregate principal amount of such Notes (and the expression **Noteholders** and references to **holding of Notes** and to **holder of Notes** shall be construed accordingly) for all purposes other than with respect to payments on such Notes, the right to which shall be vested, as against the Issuer, solely in the nominee for the relevant clearing system (the **Relevant Nominee**) in accordance with and subject to the terms of the Global Certificates. Each Accountholder must look solely to DTC or Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Relevant Nominee.

3 Cancellation

Cancellation of any Note following its redemption or purchase by the Issuer will be effected by reduction in the aggregate principal amount of the Notes in the register of Noteholders and by the annotation of the appropriate schedule to the relevant Global Certificate.

4 Payments

Payments of principal and interest in respect of Notes represented by a Global Certificate will be made upon presentation or, if no further payment falls to be made in respect of the Notes, against presentation and surrender of such Global Certificate to or to the order of the Fiscal Agent or such other Agent as shall have been notified to the holders of the Global Certificates for such purpose.

Distributions of amounts with respect to book-entry interests in the Unrestricted Global Certificates held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Fiscal Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

Holders of book-entry interests in the Notes held through DTC will receive, to the extent received by the Fiscal Agent, all distributions of amounts with respect to book-entry interests in such Notes from the Fiscal Agent through DTC. Distributions in the United States will be subject to relevant U.S. tax laws and regulations.

A record of each payment made will be entered in the register of Noteholders by or on behalf of the Fiscal Agent and shall be *prima facie* evidence that payment has been made.

5 Notices

So long as the Notes are represented by a Global Certificate and such Global Certificate is held on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled Accountholders in substitution for notification as required by Condition 12.

Whilst any of the Notes held by a Noteholder are represented by a Global Certificate, notices to be given by such Noteholder may be given by such Noteholder (where applicable) through DTC, Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Fiscal Agent, DTC, Euroclear and Clearstream, Luxembourg may approve for this purpose.

So long as the Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market and the rules of that exchange so require, the Issuer will also publish notices to the holders of the Notes in a leading newspaper having general circulation in Luxembourg (which is expected to be the Luxemburger Wort) or in a daily newspaper of international circulation including Luxembourg (which is expected to be the *Financial Times*) or arrange to make such notices available on the website of the Luxembourg Stock Exchange at http://www.bourse.lu.

6 Registration of Title

The Registrar will not register title to the Notes in a name other than that of the Relevant Nominee for a period of 15 calendar days preceding the due date for any payment of principal, or interest in respect of the Notes.

7 Exchange for Certificates

7.1 Exchange

Each Restricted Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for restricted individual certificates (**Restricted Individual Certificates**) and each Unrestricted Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for unrestricted individual certificates (**Unrestricted Individual Certificates**) (together with the Restricted Individual Certificates, the **Individual Certificates**) upon the occurrence of an Exchange Event.

For these purposes an **Exchange Event** means that:

(a) circumstances described in Condition 10 have occurred;

(b) in the case of an Unrestricted Global Certificate only, if it is held by or on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 calendar days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact permanently cease business; or

(c) in the case of a Restricted Global Certificate only, if DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Restricted Global Certificate or DTC ceases to be a “clearing agency” as defined under the U.S. Securities Exchange Act of 1934, as amended (the **Exchange Act**) or is at any time no longer eligible to act as such and no qualified successor clearing system has been identified within 90 days of receipt of such notice from DTC.

In exchange for the relevant Global Certificate, as provided in the Agency Agreement, the Registrar will deliver or procure the delivery of an equal aggregate principal amount of duly executed Individual Certificates in or substantially in the form set out in the Agency Agreement.

7.2 Delivery

In such circumstances, the relevant Global Certificate shall be exchanged in full for Individual Certificates (but against such indemnity as the Registrar may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange). A person having an interest in a Global Certificate must provide the Registrar with, in the case of a Restricted Global Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a purchaser that the transferor reasonably believes to be a QIB. Certificates issued in exchange for a beneficial interest in a Restricted Global Certificate shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "*Plan of Distribution*".

7.3 Legends and transfers

The holder of a Certificate may transfer the Notes represented thereby in whole or in part in the applicable denomination by surrendering it at the specified office of any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Certificate bearing the legend referred to under "*Plan of Distribution*", or upon specific request for removal of the legend on a Certificate, the Issuer will deliver only Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set out therein are required to ensure compliance with the provisions of the Securities Act. Restricted Individual Certificates will bear the same legend as the legend for the Restricted Global Certificate(s) set out under "*Plan of Distribution*".

The Restricted Individual Certificates may not at any time be held by or on behalf of persons in the United States that are not QIBs. Before any Unrestricted Individual Certificate may be offered, resold, pledged or otherwise transferred to a person who takes delivery in the form of a Restricted Individual Certificate, the transferor and/or transferee, as applicable, will be required to provide the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transferor reasonably believes that the transfer is (i) to a person that is a QIB; and (ii) such transfer is made in reliance on Rule 144A. Unrestricted Individual Certificates will bear the same legend as the legend for the Unrestricted Global Certificate set out under "*Plan of Distribution*". Before any Restricted Individual Certificates may be offered, resold, pledged or otherwise transferred to a person who takes delivery in the form of an Unrestricted Individual Certificate, the transferor and/or transferee, as applicable, will be required to provide the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transfer is being made in accordance with Regulation S.

TAXATION

The following summary of certain United States, European Union and Pakistani tax consequences of ownership of Notes is based upon laws, regulations, decrees, rulings, income tax conventions, administrative practice and judicial decisions in effect at the date of this Offering Circular. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and/or have retrospective effect, and could affect the tax consequences for holders of the Notes. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of Notes. Each prospective holder is urged to consult its own tax adviser as to the particular tax consequences to such holder of acquiring, holding and disposing of Notes, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as of the date of this Offering Circular, and of any actual changes in applicable tax laws after such date.

United States Taxation

ANY DISCUSSIONS OF U.S. FEDERAL TAX MATTERS SET FORTH IN THIS OFFERING CIRCULAR WERE WRITTEN IN CONNECTION WITH THE MARKETING OF THE NOTES. SUCH DISCUSSIONS WERE NOT INTENDED OR WRITTEN TO BE LEGAL OR TAX ADVICE TO ANY PERSON AND WERE NOT INTENDED OR WRITTEN TO BE USED, AND THEY CANNOT BE USED, BY ANY PERSON FOR THE PURPOSE OF AVOIDING ANY U.S. FEDERAL TAX PENALTIES THAT MAY BE IMPOSED ON SUCH PERSON. EACH INVESTOR SHOULD SEEK ADVICE BASED ON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

General

The following is a summary of the material U.S. federal income tax consequences of the acquisition, ownership and disposition of Notes by a U.S. Holder (as defined below) of Notes. Holders of Notes that are not U.S. Holders should consult their tax advisors with respect to the U.S. federal income tax consequences to them of acquiring, owning and disposing of Notes.

This summary does not address all aspects of U.S. federal income taxation that may be relevant to particular U.S. Holders in light of their specific circumstances or to holders that are subject to special treatment under the U.S. federal income tax laws, including, without limitation: insurance companies, tax-exempt organisations, banks, financial institutions, regulated investment companies, real estate investment trusts, partnerships or other pass-through entities, individual retirement accounts or other tax-deferred accounts, U.S. expatriates, persons holding Notes through a partnership or other pass-through entity, controlled foreign corporations, passive foreign investment companies, dealers or traders in securities, persons subject to the alternative minimum tax or persons that mark their securities to market, that purchase or dispose of Notes as part of a wash sale, that will hold a Note as part of a synthetic security or other integrated financial transaction or as part of a position in a straddle or as part of a conversion, constructive sale or integrated transaction for U.S. federal income tax purposes or U.S. Holders whose functional currency is not the U.S. dollar or who hold Notes through a foreign entity or foreign account.

This summary also does not discuss any aspect of state, local or non-U.S. law, or U.S. federal estate and gift tax law as applicable to U.S. Holders. In addition, this summary is limited to U.S. Holders of Notes that acquire Notes for cash as part of the initial offering (which, for greater certainty, does not include any additional notes that may be issued at a future date) at the initial issue price (i.e., the first price at which a substantial amount of Notes are sold to the public for cash). Moreover, this summary is limited to U.S. Holders that purchase and hold Notes as “capital assets” (generally, property held for investment). Prospective purchasers should consult their own tax advisors with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, holding, selling and retirement of Notes.

This summary is based on the U.S. Internal Revenue Code of 1986, as amended, U.S. Treasury regulations promulgated thereunder, administrative pronouncements, and judicial decisions currently in effect. These authorities are subject to change and differing interpretation, perhaps with retroactive effect, so as to result in U.S. federal income tax consequences different from those set out below. No ruling has been or will be sought from the U.S. Internal Revenue Service (**IRS**), and no opinion has been or will be rendered, with respect to the matters discussed below. There can be no assurance that the IRS will not take, or that a court would not sustain, a different position concerning the tax consequences of the purchase, ownership or disposition of the Notes or that any such position will not be sustained.

It is expected (and this summary assumes) that the Notes will not be issued with more than a *de minimis* amount of original issue discount for U.S. federal income tax purposes. If the Notes were issued with more than a *de minimis* amount of original issue discount, a U.S. Holder would be required to include the original issue discount in income for U.S. federal income tax purposes as it accrues before the receipt of cash payments attributable to that income. U.S. Holders should consult their tax advisors regarding the U.S. federal income tax consequences of owning the Notes if they are issued with more than a de minimis amount of original issue discount.

For purposes of this summary, a **U.S. Holder** is a beneficial owner of Notes that, for U.S. federal income tax purposes, is:

- a citizen or resident alien individual of the United States;
- a corporation created or organised in or under the laws of the United States or any State thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust (i) if a United States court is able to exercise primary supervision over the trust's administration and one or more United States persons have the authority to control all substantial decisions of the trust; or (ii) that has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a domestic trust.

If a partnership or other entity or arrangement treated as a partnership for U.S. federal income tax purposes holds Notes, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A partner in a partnership holding the Notes is urged to consult its own tax advisor regarding the U.S. federal income tax consequences of investing in the Notes.

Tax treatment of U.S. Holders

Interest

The gross amount of interest paid or payable on a Note will be includible in a U.S. Holder's gross income (without reduction for any Pakistani withholding taxes) as ordinary interest income at the time it accrues or is received, in accordance with the U.S. Holder's regular method of accounting for U.S. federal income tax purposes. Any Pakistani withholding taxes paid generally will be treated as foreign income taxes eligible for credit against a U.S. Holder's U.S. federal income tax liability, subject to generally applicable limitations and conditions, or, at the election of such U.S. Holder, for deduction in computing the U.S. Holder's taxable income. Interest on the Notes will be treated as foreign-source income for U.S. federal income tax purposes. For U.S. foreign tax credit limitation purposes, interest on the Notes will (with certain exceptions) generally constitute "passive category income" or, in certain cases, "general category income". The rules relating to foreign tax credits are extremely complex. U.S. Holders are urged to consult their own tax advisors with regard to the availability of a foreign tax credit and the application of the foreign tax credit rules to their own tax situation.

Sale, exchange, redemption or retirement of a Note

Upon the sale, exchange, redemption or retirement of a Note, a U.S. Holder will generally recognise taxable gain or loss equal to the difference, if any, between the amount realised on the sale, exchange, redemption or retirement (except to the extent any amount realised is attributable to accrued but unpaid interest, which, if not previously taxed, will be taxable as such) and the U.S.

Holder's adjusted tax basis in the Note. A U.S. Holder's adjusted tax basis in a Note generally will equal the cost of the Note to the U.S. Holder. Any gain or loss recognised upon a sale, exchange, redemption or retirement of a Note by a U.S. Holder generally will be capital gain or loss, and will be long-term capital gain or loss if, at the time of such disposition, the U.S. Holder's holding period for the Note is more than one year. Long-term capital gains of individuals and other noncorporate taxpayers are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss recognised upon a sale, exchange, redemption or retirement of a Note by a U.S. Holder generally will be treated as U.S.-source income or loss for U.S. federal income tax purposes.

Medicare tax

A U.S. Holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, will be subject to a 3.8 per cent Medicare tax on the lesser of (i) the U.S. Holder's "net investment income" for the relevant taxable year; and (ii) the excess of the U.S. Holder's modified gross income for the taxable year over a certain threshold (which in the case of individuals will be between U.S.$125,000 and U.S.$250,000, depending on the individual's circumstances). A U.S. Holder's "net investment income" will generally include its interest income and its net gains from the disposition of the Notes, unless such interest payments or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). U.S. Holders are urged to consult their own tax advisors regarding the applicability of the Medicare tax to their income and gains in respect of an investment in the Notes.

U.S. backup withholding and information reporting

Payments of interest, principal or proceeds from the sale, exchange, redemption or retirement of a Note may be subject to information reporting. Backup withholding currently at a rate of 28 per cent may also apply to these payments if a recipient that is a U.S. Holder fails to furnish to the paying agent with respect to the Notes (or other withholding agent) an IRS Form W-9 containing such U.S. Holder's taxpayer identification number or otherwise to establish an exemption from backup withholding. Penalties also may be imposed on a recipient that fails to supply a valid IRS Form W-9 or other evidence of exemption from backup withholding. Backup withholding is not an additional tax. Any amounts deducted and withheld under the backup withholding rules may be allowed as a credit against the recipient's U.S. federal income tax liability, if any. If backup withholding results in an overpayment of taxes, a refund may be obtained, provided that the required information is timely furnished to the IRS.

Certain U.S. Holders that hold specified foreign financial assets (including stock and securities of a foreign issuer) are required to report their holdings, along with other information, on their tax returns, with certain exceptions. U.S. Holders should consult their own tax advisors to determine the scope of these disclosure responsibilities.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States of the European Union are required to provide to the tax authorities of another Member State of the European Union details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State of the European Union or to certain limited types of entities established in that other Member State of the European Union. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland). In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

On 24 March 2014, the European Council adopted an EU Council Directive amending and broadening the scope of the requirements described above. In particular, the changes expand the range of payments covered by the Directive to include certain additional types of income, and widen the range of recipients, payments to whom are covered by the Directive, to include certain other types of entity and legal arrangement in particular with the view to identifying the beneficial owners of such payments. Member States are required to implement national legislation giving effect to these changes by 1 January 2016 (which national legislation must apply from 1 January 2017).

The proposed financial transactions tax (*FTT*)

The European Commission has published a proposal for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**).

The proposed FTT has a very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under current proposals the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (i) by transacting with a person established in a participating Member State; or (ii) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal remains subject to negotiation between the participating Member States and is the subject of legal challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

Pakistani Taxation

General

This summary of the principal Pakistani tax consequences of holding the Notes is only included as guidance and does not constitute tax advice. Prospective investors should consult their own advisers with regard to their potential tax liabilities resulting from an investment in the Notes.

In addition, this summary only addresses the tax consequences to non-residents holding the Notes as capital assets, and does not address the tax consequences which may be relevant to other classes of non-resident holders.

The summary is based on present Pakistani tax laws and practices.

Tax on interest payments

Clause 75 of the Second Schedule to the Income Tax Ordinance (2001) exempts from income tax any income of an agency of a foreign Government, a foreign national (company, firm or association of persons), or any other non-resident person approved by the federal Government for the purposes of this clause, from profit on moneys borrowed under a loan agreement or in respect of a foreign currency instrument approved by the federal Government.

The Notes have been approved on 25 March 2014 by the Finance Division of the Federal Government for purposes of Clause 75 of the Second Schedule of the Income Tax Ordinance.

Withholding tax

Payments by the Issuer of interest and principal under the Notes shall not be subject to any withholding or deduction for any taxes under the laws of Pakistan.

Stamp Duty

The Issuer has undertaken to bear the liability for stamp duty in respect of the Notes, *inter alia,* in Pakistan. Under the Stamp Act 1899, where the Issuer assumes liability for stamp duty, the instrument to which such assumption relates is exempt from duty.

CLEARING AND SETTLEMENT ARRANGEMENTS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg (together, the **Clearing Systems***) currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

The Clearing Systems

Custodial and depositary links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See "*Book-Entry Ownership*" and "*Settlement and Transfer of Notes*" below.

Investors may hold their interests in a Global Certificate directly through DTC, Euroclear or Clearstream, Luxembourg if they are accountholders (**Direct Participants**) or indirectly (**Indirect Participants** and, together with Direct Participants, **Participants**) through organisations which are accountholders therein.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a "banking organisation" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in a Restricted Global Certificate directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

Under the rules, regulations and procedures creating and affecting DTC and its operations (the **Rules**), DTC makes book-entry transfers of Restricted Notes represented by a Restricted Global Certificate among Direct Participants on whose behalf it acts with respect to Restricted Notes and receives and transmits distributions of principal and interest on Restricted Notes. The Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of Restricted Notes have accounts with respect to the Restricted Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their beneficial owners. Accordingly, although beneficial owners who hold Restricted Notes through Direct Participants or Indirect Participants will not possess Restricted Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which Participants will receive payments and will be able to transfer their interest in respect of the Restricted Notes.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of a Restricted Global Certificate as to which such Participant or Participants has or have given such direction. However, in the circumstances described under "*The Global Certificates – Exchange for Certificates*", DTC will cause its custodian to surrender a Restricted Global Certificate for exchange for Individual Certificates (which will bear the legend applicable to transfers pursuant to Rule 144A).

Payments through DTC

Payments of principal and interest in respect of a Global Certificate registered in the name of, or in the name of a nominee for, DTC will be made to the order of such nominee as the registered holder of such Note.

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

Each Unrestricted Global Certificate evidencing Unrestricted Notes will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

The address of Euroclear is 1 Boulevard du Roi Albert 11, B-1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855, Luxembourg.

DTC

Each Restricted Global Certificate evidencing the Restricted Notes will have an ISIN, Common Code and a CUSIP number and will be deposited with a custodian (the **Custodian**) for, and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC System.

The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of DTC, Euroclear or Clearstream, Luxembourg as the holder of a Note evidenced by a Global Certificate must look solely to DTC, Euroclear or Clearstream, Luxembourg (as the case may be) for its share of each payment made by the Issuer to the holder of such Global Certificate and in relation to all other rights arising under such Global Certificate, subject to and in accordance with the respective rules and procedures of DTC, Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Certificate, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant Participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Certificate as shown on the records of the relevant common depositary or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Certificate held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Certificate and the obligations of the Issuer will be discharged by payment to the registered holder of such Global Certificate in respect of each amount so paid. None of the Issuer, the Fiscal Agent or any other Paying and Transfer Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the **Beneficial Owner**) will in turn be recorded on the Direct and Indirect Participants' records.

Beneficial Owners will not receive written confirmation from any Clearing System of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the Clearing System will be effected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates evidencing their ownership interests in such Notes, unless and until interests in any Global Certificate held within a Clearing System are exchanged for Individual Certificates.

No Clearing System has knowledge of the actual Beneficial Owners of the Notes held within such Clearing System and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners, will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Certificate to such persons may be limited. As DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Restricted Global Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of a physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC Participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement system in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg Purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC Participant holding a beneficial interest in a Restricted Global Certificate to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in an Unrestricted Global Certificate (subject to the certification procedures provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg Participant. On the settlement date, the custodian of the relevant Restricted Global Certificate will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Restricted Global Certificate; and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the relevant Unrestricted Global Certificate. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC Purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC Participant wishing to purchase a beneficial interest in a Restricted Global Certificate (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg Participant must send to Euroclear or Clearstream, Luxembourg delivery, free of payment instructions, by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC Participant on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (i) transmit appropriate instructions to the custodian of the relevant Restricted Global Certificate who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC Participant; and (ii) instruct the Registrar to (a) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the relevant Unrestricted Global Certificate; and (b) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the relevant Restricted Global Certificate.

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in Global Certificates among Participants and accountholders of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Fiscal Agent or any other Paying and Transfer Agent will have any responsibility for the performance by DTC, Euroclear, Clearstream, Luxembourg or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Settlement of Pre-issue Trades

It is expected that delivery of Notes will be made against payment therefor on the Issue Date, which will be the fifth business day following the date of pricing (such settlement cycle being referred to as **T+5**). Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (**T+3**), unless the parties to any such trade expressly agree otherwise.

Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the Issue Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary.

Purchasers of Notes may be affected by such local settlement practices and purchasers of Notes between the relevant date of pricing and the Issue Date should consult their own advisers.

PLAN OF DISTRIBUTION

Each of the managers named in the table below (the **Managers**) has, pursuant to a Subscription Agreement (the **Subscription Agreement**) dated 9 April 2014 severally, and not jointly, agreed to subscribe or procure subscribers for the principal amount of Notes set out opposite its name in the table below at the issue price of 100.0 per cent of the principal amount of the 2019 Notes and at the issue price of 100.0 per cent of the principal amount of the 2024 Notes, less a combined management and underwriting commission, subject to the provisions of the Subscription Agreement.

	Underwriting Commitment	
Manager	**2019 Notes**	**2024 Notes**
	U.S.$	
Barclays Bank PLC	250,000,000	250,000,000
Citigroup Global Markets Limited	250,000,000	250,000,000
Deutsche Bank AG, London Branch	250,000,000	250,000,000
Merrill Lynch International	250,000,000	250,000,000
Total	**1,000,000,000**	**1,000,000,000**

The Issuer will also reimburse the Managers in respect of certain of their expenses, and has agreed to indemnify the Managers against certain liabilities (including liabilities under the Securities Act), incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the net subscription money in respect of the Notes to the Issuer.

Managers Transacting with the Issuer

All or some of the Managers and their affiliates have and/or may in the future engage in investment banking, commercial banking and other financial advisory and commercial dealings with the Issuer and its agencies and in relation to securities issued by the Issuer and its agencies. They have or may (i) engage in investment banking, trading or hedging activities, including in activities that may include prime brokerage business, financing transactions or entry into derivative transactions; (ii) act as underwriters in connection with offerings of securities issued by the Issuer and its agencies; or (iii) act as financial advisers to the Issuer and its agencies. In the context of these transactions, certain of them have or may hold securities issued by the Issuer and its agencies. Where applicable, they have or will receive customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its agencies. The Managers or their affiliates may routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer's securities, including potentially the notes offered hereby. Any such short positions could adversely affect future trading prices of the notes offered hereby. The Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

United States

The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only (a) outside the United States under the Securities Act in offshore transactions in reliance on, and in compliance with, Regulation S and (b) in the United States to a limited number of QIBs as defined in Rule 144A under the Securities Act in connection with resales by the Managers, in reliance on, and in compliance with, Rule 144A.

In addition, until 40 days after the later of the commencement of the offering and the Closing Date, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering of the Notes) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Each Manager has represented and agreed that except as permitted by the Subscription Agreement and set forth in *"Transfer Restrictions"* it has offered and sold, and will offer and sell, the Notes within the United States as part of their distribution at any time, only in accordance with Rule 903 of Regulation S or Rule 144A. Accordingly, neither such Manager nor its affiliates, nor any persons acting on its or their behalf, have engaged or will engage in any directed selling efforts (as defined in Regulation S) with respect to the Notes, and such Manager, its affiliates and all persons acting on its or their behalf have complied and will comply with the offering restrictions requirement of Regulation S.

Each purchaser of a Note, by its acceptance thereof, will be deemed to have acknowledged, represented to and agreed with the Issuer and the Managers the matters set forth under "*Transfer Restrictions*".

United Kingdom

Each Manager has represented and agreed in the Subscription Agreement that:

(1) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (**FSMA**)) received by it in connection with the issue or sale of any Note in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(2) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Pakistan

Each Manager has represented and agreed in the Subscription Agreement that the Notes or interests therein will not be offered, sold or transferred directly or indirectly in Pakistan, to residents of Pakistan, or to, or for the account or benefit of, such persons. The SBP has confirmed that non-resident Pakistani citizens are free to purchase the Notes and to transfer the Notes to other non-resident persons, subject, in each case, to the condition that the purchase price is paid in convertible foreign currency outside Pakistan.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Manager has represented and agreed in the Subscription Agreement that the Notes have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

Dubai International Financial Centre

Each Manager has represented and agreed in the Subscription Agreement that it has not offered and will not offer the Notes to any person in the Dubai International Financial Centre unless such offer is:

(1) an “Exempt Offer” in accordance with the Markets Rules of the Dubai Financial Services Authority (the **DFSA**); and

(2) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module of the DFSA Rulebook.

Hong Kong

Each Manager has represented and agreed in the Subscription Agreement that:

(1) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent); or (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the **SFO**) and any rules made under the SFO; or (iii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(2) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

Singapore

Each Manager has acknowledged in the Subscription Agreement that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore and the Notes will be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the **Securities and Futures Act**). Accordingly, the Notes may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this Offering Circular or any other document or material in connection with the offer or sale or invitation for subscription or purchase of the Notes be circulated or distributed, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, (ii) to a relevant person pursuant to Section 275(1) of the Securities and Futures Act, or to any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Each of the following persons specified in Section 275 of the Securities and Futures Act which has subscribed or purchased the Notes, namely a person who is:

(1) a corporation (which is not an accredited investor (as defined in Section 4A of the Securities and Futures Act)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(2) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shall note that shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferable for six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 except:

(1) to an institutional investor under Section 274 of the Securities and Futures Act or to a relevant person or to any person pursuant to Section 275(1) and Section 275(1A) of the Securities and Futures Act, respectively and in accordance with the conditions specified in Section 275 of the Securities and Futures Act;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law; or

(4) as specified in Section 276(7) of the Securities and Futures Act.

General

No action has been taken by the Issuer or any of the Managers that would, or is intended to, permit a public offer of the Notes or possession or distribution of the Offering Circular or any other offering or publicity material relating to the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

TRANSFER RESTRICTIONS

Due to the following significant transfer restrictions applicable to the Notes, investors are advised to consult legal counsel prior to making any reoffer, resale, pledge, transfer or disposal of Notes.

The Notes have not been registered under the Securities Act, and may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold (1) in the United States only to persons reasonably believed to be "qualified institutional buyers", which are referred to as QIBs, as defined in Rule 144A under the Securities Act in compliance with Rule 144A and (2) to persons outside the United States (**foreign purchasers**) in offshore transactions pursuant to Regulation S under the Securities Act.

By its purchase of Notes, each purchaser of Notes will be deemed to:

(1) represent that it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is (i) a QIB, and is aware that the sale to it is being made in reliance on Rule 144A; or (ii) a foreign purchaser that is outside the United States;

(2) acknowledge that the Notes have not been registered under the Securities Act and may not be offered or sold within the United States except as set forth below;

(3) if it is a person other than a foreign purchaser outside the United States agree that if it should resell or otherwise transfer the Notes within the time period referred to in Rule 144 under the Securities Act after the original issuance of the Notes, it will do so only (i) to the Issuer; (ii) to a QIB in compliance with Rule 144A; (iii) outside the United States in an offshore transaction in compliance with Rule 903 or 904 of Regulation S under the Securities Act; (iv) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) but only upon delivery to the Issuer of an opinion of counsel in form and scope satisfactory to the Issuer; or (v) pursuant to an effective registration statement under the Securities Act. Subject to the procedures set forth in the Agency Agreement, prior to any proposed transfer of the Notes (other than pursuant to an effective registration statement) within the time period referred to in Rule 144 under the Securities Act after the original issuance of the Notes, the holder thereof must check the appropriate box set forth on the reverse of its Notes relating to the manner of such transfer and submit the Notes to the Fiscal Agent;

(4) agree that it will deliver to each person to whom it transfers Notes notice of any restriction on transfer of such Notes;

(5) understand and agree that Restricted Notes initially offered in the United States to QIBs will be represented by one or more Restricted Global Certificates and that Unrestricted Notes offered outside the United States in offshore transactions pursuant to Regulation S will be represented by one or more Unrestricted Global Certificates;

(6) understand that unless registered under the Securities Act, the Notes (other than those issued to foreign purchasers) will bear a legend to the following effect, unless otherwise agreed by the Issuer and the holder thereof:

THE NOTES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933 AS AMENDED (THE *SECURITIES ACT*), OR ANY SECURITIES LAW OF ANY STATE IN THE UNITED STATES OF AMERICA. THE HOLDER HEREOF, BY PURCHASING THE NOTES IN RESPECT OF WHICH THIS CERTIFICATE IS ISSUED, ACKNOWLEDGES AND AGREES, FOR THE BENEFIT OF THE ISSUER, THAT SUCH NOTES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A)(l) TO THE ISSUER, (2) IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER WHOM THE HOLDER HAS INFORMED, IN EACH

CASE, THAT THE OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (3) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (4) IN A TRANSACTION THAT IS OTHERWISE EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT BUT ONLY UPON DELIVERY TO THE ISSUER OF AN OPINION OF COUNSEL IN FORM AND SCOPE SATISFACTORY TO THE ISSUER; AND (B) IN EACH CASE IN COMPLIANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES.

(7) acknowledge that the Issuer and the Managers will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements, and agree that if any of the acknowledgments, representations or warranties deemed to have been made by it, by its purchase of Notes, are no longer accurate, it shall promptly notify the Issuer and the Managers; and

(8) if it is acquiring Notes as a fiduciary or agent for one or more investor accounts, represent that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

VALIDITY OF NOTES

The validity of the Notes will be passed upon for the Issuer by Norton Rose Fulbright LLP, English and United States counsel to the Issuer, and by the Joint Secretary to the Ministry of Law, Justice and Human Rights of the Government of Pakistan, and for the Managers by Allen & Overy LLP, English and United States counsel to the Managers, and by Kabraji & Talibuddin. As to all matters of Pakistani law, Norton Rose Fulbright LLP may rely on the opinion of the Joint Secretary to the Ministry of Law, Justice and Human Rights of the Government of Pakistan, and Allen & Overy LLP may rely upon the opinion of Kabraji & Talibuddin. As to all matters of English law, the Joint Secretary to the Ministry of Law, Justice and Human Rights of the Government of Pakistan may rely upon the opinion of Norton Rose Fulbright LLP, and Kabraji & Talibuddin may rely upon the opinion of Allen & Overy LLP.

GENERAL INFORMATION

Authorisation

The Issuer has obtained all necessary consents, approvals and authorisations under the laws of the Islamic Republic of Pakistan in connection with the issue and performance of the Notes. The issue of the Notes was approved on 31 March 2014 and 8 April 2014 by the Prime Minister of the Islamic Republic of Pakistan, pursuant to Rule 16(2) of the Rules of Business of the Government of Pakistan 1973 (as amended). The Notes have been approved on 25 March 2014 by the Finance Division of the Federal Government for purposes of Clause 75 of the Second Schedule of the Income Tax Ordinance.

Listing

Application has been made to admit the Notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market. The Luxembourg listing agent is Banque Internationale à Luxembourg, société anonyme.

So long as any of the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market and the rules and regulations of the Luxembourg Stock Exchange so require, the Issuer will maintain a paying agent and a transfer agent in Luxembourg.

Clearing Systems

The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The Common Code and ISIN for the Unrestricted Notes and the Common Code, ISIN and CUSIP number for the Restricted Notes are as follows:

2019 Notes

	Restricted Notes	Unrestricted Notes
CUSIP..	695847AL7	-
ISIN...	US695847AL74	XS1056560763
Common Code....................................	105731396	105656076

2024 Notes

	Restricted Notes	Unrestricted Notes
CUSIP..	695847AK9	-
ISIN...	US695847AK91	XS1056560920
Common Code....................................	105733712	105656092

Litigation

The Issuer is not involved in any litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the Notes nor, so far as the Issuer is aware, is any such litigation or arbitration pending or threatened. The Government is subject to ordinary course litigation and arbitration which it defends vigorously.

Economic Survey

Copies of the Economic Survey 2012-13 and all future Economic Surveys and Statistical Supplements may be obtained at the specified office of the Paying Agent and the Listing Agent during normal business hours, so long as any of the Notes are listed on the Luxembourg Stock Exchange. The aforementioned Economic Survey 2012-13 contains certain summary information regarding the annual budget of the Government.

Documents

Physical copies of the Offering Circular and the Agency Agreement containing the forms of the Note Certificates will be available, at the specified offices of the Paying Agent during normal business hours, so long as any of the Notes are outstanding. A copy of the Offering Circular, the Agency Agreement and the Constitution of Pakistan will be available at the specified office of the Paying Agent and the Listing Agent during normal business hours so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market.

Once the Notes have been admitted to listing on the Official List of the Luxembourg Stock Exchange, and admitted to trading on the Euro MTF Market, the Offering Circular will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

THE ISSUER
The President of the Islamic Republic of Pakistan
for and on behalf of the Islamic Republic of Pakistan
Block Q
Pak Secretariat
Ministry of Finance
Islamabad
Pakistan

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