



**The President of the Islamic Republic of Pakistan  
for and on behalf of the Islamic Republic of Pakistan**

**The Second Pakistan International Sukuk Company Limited**  
*(a public limited liability company incorporated in the Islamic Republic of Pakistan)*

**U.S.\$1,000,000,000 Trust Certificates due 2019**

**Issue Price: 100 per cent**

The U.S.\$1,000,000,000 trust certificates due 2019 (the **Certificates**) of The Second Pakistan International Sukuk Company Limited (in its capacity as issuer, the **Issuer**) will be constituted by a declaration of trust (the **Declaration of Trust**) dated on or about 1 December 2014 among the Issuer, the President of the Islamic Republic of Pakistan for and on behalf of the Islamic Republic of Pakistan (the **Government** or in its capacity as obligor, the **Obligor** or in its capacity as lessee, the **Lessee**, or in its capacity as servicing agent, the **Servicing Agent**) and Deutsche Trustee Company Limited (the **Delegate**). Pursuant to the Declaration of Trust, the Issuer (in its capacity as the trustee for and on behalf of the Certificateholders (as defined herein), the **Trustee**) will declare that it will hold the Trust Assets (as defined herein) upon trust absolutely for the holders of the Certificates *pro rata* according to the face amount of Certificates held by each Certificateholder in accordance with the Declaration of Trust and the terms and conditions of the Certificates (the **Conditions**).

On 3 June and 3 December in each year, commencing on 3 June 2015 (each, a **Periodic Distribution Date**), the Issuer will pay Periodic Distribution Amounts (as defined herein) to Certificateholders calculated at the rate of 6.75 per cent per annum on the outstanding face amount of the Certificates as at the beginning of the relevant Return Accumulation Period (as defined herein) on a 30/360 day basis.

The Issuer will pay such Periodic Distribution Amounts solely from the proceeds received in respect of the Trust Assets which include rental payments by the Lessee under the Lease Agreement (as defined herein). Unless previously redeemed in the circumstances described in Condition 9, the Certificates will be redeemed on 3 December 2019 (the **Scheduled Dissolution Date**) at the Dissolution Distribution Amount (as defined herein). The Issuer will pay Dissolution Distribution Amounts solely from the proceeds received in respect of the Trust Assets which include payments by the Government under the Purchase Undertaking (as defined herein).

**The Certificates are limited recourse obligations of the Issuer. An investment in the Certificates involves certain risks. For a discussion of these risks, see “Risk Factors” beginning on page 17.**

The Certificates are expected to be assigned a rating of “B-” by Standard & Poor’s Ratings Services, (**Standard & Poor’s**) and “Caa1” by Moody’s Investors Service Singapore Pte. Ltd. (**Moody’s**). A rating is not a recommendation to buy, sell or hold the Certificates (or beneficial interests therein), does not address the likelihood or timing of payment and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

Application has been made to admit the Certificates 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 constitutes a prospectus for the purposes of the Luxembourg law dated 10 July 2005 on prospectuses for securities, as amended.

The Certificates have not been and will not be registered under the United States Securities Act of 1933, as amended (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 or to, or for the account or benefit of U.S. persons (as defined in Regulation S under the Securities Act (“**Regulation S**”)) except pursuant to an exemption from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws. In addition, neither the Trust nor the Issuer has been or will be registered under the United States Investment Company Act of 1940, as amended (the “**Investment Company Act**”). Accordingly, the Certificates will be offered, sold or delivered (i) to non U.S. persons in offshore transactions in reliance on Regulation S (the **Regulation S Certificates**) and (ii) within the United States in reliance on Rule 144A under the Securities Act (**Rule 144A**) only to persons reasonably believed to be “qualified institutional buyers” (each a **QIB**) within the meaning of Rule 144A who are also “qualified purchasers” (each a “**QP**”) as defined in Section 2(a)(51) of the Investment Company Act, acting for their own account or for the account of one or more QIBs who are also QPs (the **Rule 144A Certificates**). Each purchaser of the Certificates in making its purchase will be deemed to have made certain acknowledgements, representations and agreements. Prospective purchasers are hereby notified that sellers of the Rule 144A Certificates may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Certificates are subject to other restrictions on transferability and resale, see “*Plan of Distribution*” and “*Transfer Restrictions*”.

The Certificates will be offered and sold in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof. The Regulation S Certificates will initially be represented by interests in one or more global Regulation S certificates in registered form (each a **Regulation S Global Certificate**) which will be deposited with a common depositary for, and registered in the name of a nominee of, Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**) on 3 December 2014 or such later date as may be agreed (the **Issue Date**). Beneficial interests in the Regulation S Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear or Clearstream, Luxembourg. The Rule 144A Certificates will initially be represented by one or more global Rule 144A certificates in registered form (each a **Rule 144A Global Certificate**) and, together with the Regulation S Global Certificates, the **Global Certificates**) which will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company (**DTC**) on the Issue Date by the Issuer and the Managers (as defined under “*Plan of Distribution*”). Beneficial interests in the Rule 144A Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. See “*Clearance and Settlement*”. Individual definitive 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 Certificates (such settlement cycle being herein referred to as T+5).**

*Joint Lead Managers*

**Citigroup**

**Deutsche Bank**

**Dubai Islamic Bank PJSC**

**Standard Chartered Bank**

The date of this offering circular is 1 December 2014.

The Issuer and the Government accept responsibility for the information contained in this offering circular. The Issuer and the Government, each having made all reasonable enquiries, confirm that this offering circular contains or incorporates all information which is material in the context of the Certificates, 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 authorised in connection with the offering of the Certificates to give any information or to make any representation other than as contained in this offering circular, and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Government, the Joint Lead Managers, the Trustee, the Delegate, the Agents (each as defined herein) or any other person. Neither the delivery of this offering circular nor any sale of any Certificates shall, under any circumstances, constitute a representation or create any implication that the information contained herein is correct as of any time subsequent to the date hereof or that there has been no change in the affairs of any party mentioned herein since that date.

To the fullest extent permitted by law, none of the Joint Lead Managers, the Delegate or the Agents accepts any responsibility for the contents of this offering circular or for any statements made or purported to be made by the Joint Lead Managers, the Delegate or the Agents or on its behalf in connection with the Issuer or the Government or the offering of the Certificates. The Joint Lead Managers, the Delegate and the Agents accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which any of them might otherwise have in respect of this offering circular or any such statement.

The Joint Lead 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 Joint Lead 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 or the Government in connection with the Certificates or their distribution. None of the Joint Lead Managers accept any liability in relation to the information contained in this offering circular or any other information provided by the Issuer or the Government in connection with the Certificates.

Neither this offering circular nor any other information supplied in connection with the Certificates is intended to provide the basis of any credit or other evaluation or should be considered as a recommendation by the Issuer, the Government, the Joint Lead Managers, the Trustee, the Delegate or the Agents that any recipient of this offering circular should purchase any of the Certificates. Each investor contemplating purchasing any Certificates should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Government. None of the Joint Lead Managers, the Delegate or the Agents undertakes to review the Issuer's or the Government's financial condition or affairs during the life of the arrangements contemplated by this offering circular or to advise any investor or potential investor in the Certificates of any information relating to the Issuer or the Government coming to its attention.

No comment is made or advice given by the Issuer, the Government, the Joint Lead Managers, the Trustee, the Delegate or the Agents in respect of taxation matters relating to the Certificates or the legality of the purchase of the Certificates by an investor under any applicable law.

**EACH PROSPECTIVE INVESTOR IS ADVISED TO CONSULT ITS TAX ADVISER, LEGAL ADVISER, BUSINESS ADVISER AND SHARI'A ADVISER AS TO TAX, LEGAL, BUSINESS, SHARI'A AND RELATED MATTERS CONCERNING THE PURCHASE OF THE CERTIFICATES.**

This offering circular does not constitute an offer to sell or the solicitation of an offer to buy any Certificates in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this offering circular and the offer or sale of the Certificates may be restricted by law in certain jurisdictions. None of the Issuer, the Government, the Joint Lead Managers, the Trustee, the Delegate or the Agents represents that this offering circular may be lawfully distributed, or that any Certificates may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Government, the Joint Lead Managers, the Trustee, the Delegate or the Agents which is intended to permit a public offering of any Certificates or distribution of this offering circular in any jurisdiction where action for that purpose is required. Accordingly, no Certificates may be offered or sold, directly or indirectly, and neither this offering circular nor any advertisement nor other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this offering circular or any Certificates may come must inform themselves about, and observe, any such restrictions on the distribution of this offering circular and the offering and sale of the Certificates. In particular, there are restrictions on the distribution of this offering circular and the offer or sale of Certificates in the United States, the United Kingdom, Pakistan, Hong Kong, Singapore, the United Arab Emirates (excluding the Dubai International Financial Centre), Dubai International Financial Centre, the Kingdom of Saudi Arabia and Malaysia. See “*Plan of Distribution*”.

The Shariah Advisory Board of Citi Islamic Investment Bank E.C., Dr Hussein Hamid Hassan, the Shari’a advisor of Deutsche Bank AG, London Branch, the Executive Committee of the Fatwa & Shariah Advisory Board of Dubai Islamic Bank PJSC and the Shari’a Supervisory Committee of Standard Chartered Bank have approved that the Certificates are Shari’a compliant. However, there can be no assurance that the transaction structure or the issue and trading of the Certificates will be deemed to be Shari’a compliant by any other Shari’a board or Shari’a scholar. None of the Issuer, the Government, the Joint Lead Managers, the Delegate or the Agents makes any representation as to the Shari’a compliance of the Certificates and potential investors are reminded that, as with any Shari’a views, differences in opinion are possible. Potential investors should obtain their own independent Shari’a advice as to the compliance of the structure and the issue and trading of the Certificates with Shari’a principles.

THE CERTIFICATES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF CERTIFICATES OR THE ACCURACY OR THE ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

The Certificates 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. The Certificates may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws. Neither the Trust nor the Issuer has been or will be registered as an investment company in the United States under the Investment Company Act. Each investor, by purchasing a Certificate, agrees that the Certificates may be reoffered, resold, replighted or otherwise transferred only upon registration under the Securities Act and the Investment Company Act or pursuant to the exemptions therefrom described under “Transfer Restrictions”. Each investor will also be deemed to have made certain representations and agreements as described therein.

The Certificates are being offered and sold to non-U.S. persons in offshore transactions in reliance on Regulation S and within the United States in reliance on Rule 144A only to persons reasonably

believed to be QIBs who are also QPs. Prospective purchasers are hereby notified that sellers of the Rule 144A Certificates may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For description of these and certain further restrictions on offers, sales and transfers of Certificates and distribution of this offering circular, see “*Plan of Distribution*” and “*Transfer Restrictions*”.

IN CONNECTION WITH THE ISSUE OF CERTIFICATES, THE JOINT LEAD MANAGER(S) NAMED AS STABILISATION MANAGER(S) (OR ANY PERSON ACTING ON BEHALF OF THE STABILISATION MANAGER(S)) MAY EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE CAN BE NO ASSURANCE THAT THE STABILISATION MANAGER(S) (OR ANY PERSON ACTING ON BEHALF OF THE STABILISATION MANAGER(S)) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE ISSUE DATE 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 CERTIFICATES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE CERTIFICATES. ANY STABILISATION SHALL BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND REGULATIONS.

#### **NOTICE TO RESIDENTS OF THE ISLAMIC REPUBLIC OF PAKISTAN**

THE CERTIFICATES 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 ENTRY INTO OF THE TRANSACTION DOCUMENTS BY THE GOVERNMENT 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”.

#### **NOTICE TO NEW HAMPSHIRE RESIDENTS**

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED, 1955, AS AMENDED (**RSA**), 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 RSA 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.

## **NOTICE TO RESIDENTS OF THE KINGDOM OF SAUDI ARABIA**

THIS OFFERING CIRCULAR MAY NOT BE DISTRIBUTED IN THE KINGDOM OF SAUDI ARABIA EXCEPT TO SUCH PERSONS AS ARE PERMITTED UNDER THE OFFERS OF SECURITIES REGULATIONS ISSUED BY THE CAPITAL MARKET AUTHORITY.

THE CAPITAL MARKET AUTHORITY DOES NOT MAKE ANY REPRESENTATIONS AS TO THE ACCURACY OR COMPLETENESS OF THIS OFFERING CIRCULAR, AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS ARISING FROM, OR INCURRED IN RELIANCE UPON, ANY PART OF THIS OFFERING CIRCULAR. PROSPECTIVE PURCHASERS OF THE SECURITIES OFFERED HEREBY SHOULD CONDUCT THEIR OWN DUE DILIGENCE ON THE ACCURACY OF THE INFORMATION RELATING TO THE SECURITIES. IF A PROSPECTIVE PURCHASER DOES NOT UNDERSTAND THE CONTENTS OF THIS OFFERING CIRCULAR HE OR SHE SHOULD CONSULT AN AUTHORISED FINANCIAL ADVISER.

## **NOTICE TO RESIDENTS OF MALAYSIA**

THE CERTIFICATES MAY NOT BE OFFERED FOR SUBSCRIPTION OR PURCHASE AND NO INVITATION TO SUBSCRIBE FOR OR PURCHASE THE CERTIFICATES IN MALAYSIA MAY BE MADE, DIRECTLY OR INDIRECTLY, AND THIS OFFERING CIRCULAR OR ANY DOCUMENT OR OTHER MATERIALS IN CONNECTION THEREWITH MAY NOT BE DISTRIBUTED IN MALAYSIA OTHER THAN TO PERSONS FALLING WITHIN THE CATEGORIES SET OUT IN SCHEDULE 6 OR SECTION 229(1)(B), SCHEDULE 7 OR SECTION 230(1)(B) AND SCHEDULE 8 OR SECTION 257(3), READ TOGETHER WITH SCHEDULE 9 OR SECTION 257(3) OF THE CAPITAL MARKET AND SERVICES ACT 2007 OF MALAYSIA. THE SECURITIES COMMISSION MALAYSIA SHALL NOT BE LIABLE FOR ANY NON-DISCLOSURE ON THE PART OF THE ISSUER OR THE GOVERNMENT AND ASSUMES NO RESPONSIBILITY FOR THE CORRECTNESS OF ANY STATEMENTS MADE OR OPINIONS OR REPORTS EXPRESSED IN THIS OFFERING CIRCULAR.

## AVAILABLE INFORMATION

For so long as any Certificates are “restricted securities” as defined in Rule 144(a)(3) under the Securities Act, the Issuer will, during any period that it is neither subject to Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended (the **Exchange Act**), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, nor a foreign government eligible to register securities under Schedule B of the Securities Act, furnish, upon request, to any holder or beneficial owner of Certificates or any prospective purchaser designated by any such holder or beneficial owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

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## PRESENTATION OF FINANCIAL INFORMATION

Unless otherwise indicated, all information contained herein is given as of the date of this offering memorandum. Certain figures included in this offering memorandum have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding 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 21 November 2014 as quoted by the State Bank of Pakistan (**SBP**) was Rupees 101.66 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 **2013-14** 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

Pakistan is a foreign sovereign nation, and a substantial portion of the assets of Pakistan 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 President of the Islamic Republic of Pakistan for and on behalf of the Islamic Republic of Pakistan. References to the **Economic Survey 2013-14** herein are to the Economic Survey 2013-14 published on 2 June 2014 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 Certificates 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 Certificates 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.....	78.66	81.46
2009-10.....	83.92	85.51
2010-11.....	85.57	85.97
2011-12.....	89.40	94.55
2012-13.....	96.85	99.66
2013-14.....	102.88	98.80
June 2014.....	98.58	98.80
July 2014.....	98.79	98.88
Aug 2014.....	100.47	101.76
Sep 2014.....	102.55	102.63
Oct 2014.....	102.91	102.88
Nov 2014 <sup>(1)</sup> .....	101.96	101.66

<sup>(1)</sup>As of 21 November 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.

## 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 Certificates.*

### 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 186 million in 2013-14 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 (58 per cent of GDP 2013-14), industrial (21 per cent of GDP 2013-14) and agriculture (21 per cent of GDP 2013-14). 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 25,402 billion (approximately U.S.\$245 billion) in 2013-14 and GDP growth was 4.1 per cent in 2013-14, 3.7 per cent in 2012-13 and 3.8 per cent in 2011-12. The increased growth in GDP in 2013-14 reflects growth in all these principal economic sectors – services, agriculture and industrial. In 2013-14, the services sector grew at 4.29 per cent (4.85 per cent in 2012-13), the agriculture sector grew 2.12 per cent (2.88 per cent in 2012-13) and the industrial sector grew at 5.84 per cent (1.37 per cent in 2012-13). The slowdown in GDP growth from 3.8 per cent in 2011-12 to 3.7 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:

	2009-10	2010-11	2011-12	2012-13	2013-14 <sup>(1)</sup>
GDP at current market price ( <i>Rupees million</i> ).....	14,866,996	18,276,440	20,046,500	22,489,077	25,401,895
GNI at current market price ( <i>Rupees million</i> ).....	15,433,243	19,096,665	21,082,207	23,650,295	26,775,661

	2009-10	2010-11	2011-12	2012-13	2013-14 <sup>(1)</sup>
Population ( <i>million</i> ).....	171.7	175.3	178.9	182.5	186
Per capita income at factor cost ( <i>Rupees</i> ) .	86,268	105,347	114,008	124,736	136,736
Per capita income ( <i>U.S.\$</i> ).....	1,072	1,274	1,321	1,340	1,386
Exports ( <i>U.S.\$ million</i> ) (fob).....	19,673	25,356	24,696	24,795	25,151
Imports ( <i>U.S.\$ million</i> )(fob).....	31,209	35,872	40,461	40,226	41,786
Balance of trade ( <i>U.S.\$ million</i> ) .....	(11,536)	(10,516)	(15,765)	(15,431)	(16,635)
Workers' remittances ( <i>U.S.\$ million</i> ) .....	8,906	11,201	13,186	13,922	15,832
Current account balance ( <i>US \$ million</i> )....	(3,946)	214	(4,658)	(2,496)	(2,971)
Current account balance ( <i>as % of GDP</i> )...	(2.2)	0.1	(2.1)	(1.1)	(1.2)
Overall fiscal deficit ( <i>as % of GDP</i> ).....	6.2	6.5 <sup>(2)</sup>	6.8 <sup>(3)</sup>	8.2	5.5
GDP growth at factor cost (%) .....	2.58	3.62	3.84	3.70	4.14
Average Inflation (%).....	10.1	13.7	11.0	7.4	8.6
Total investment at market price ( <i>as % of GDP</i> ) .....	15.8	14.1	15.1	14.6	14.0
Real GDP at factor cost ( <i>Rupees million</i> ) .	8,801,394	9,120,336	9,470,255	9,820,249	10,226,664
Private consumption expenditure at current prices ( <i>Rupees million</i> ).....	11,851,316	14,831,293	16,527,831	18,255,832	20,445,595
National savings ( <i>as % of GDP</i> ).....	13.6	14.2	13.0	13.5	12.9

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

(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 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 2013-14 represented 5.5 per cent of GDP, compared to 8.2 per cent of GDP in 2012-13. The Government's fiscal deficit target for 2014-15 is 4.9 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 4.0 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 was 4.1 per cent for 2013-14 and is forecast at 5.1 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 remained at 8.6 per cent in 2013-14 and is projected to be contained at a level of approximately 8.0 per cent 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. A recent SBP consumer confidence survey predicts moderation in the expected level of inflation in 2014-15. In October 2014, inflation was 5.8 per cent.
- ***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 below the U.S.\$14.0 billion (inclusive of reserves held by local banks) projected by the Government by the end of fiscal year 2014-15. Foreign exchange reserves increased to U.S.\$14.1 billion at the end of 2013-2014 compared to U.S.\$11.0 billion at the end of 2012-13. As of 30 October 2014, foreign exchange reserves were U.S.\$13.3 billion.
- ***Debt.*** Pakistan's external debt was approximately 19 per cent of GDP at 30 June 2014 and (subject to significant exchange rate depreciation, a decline in remittances and/or a rise in oil

prices) is predicted by the Government to remain at this level for the medium term. Public debt is also expected to decline over the medium-term. Pakistan has successfully extended its debt maturity profile over recent years.

**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 2.8 per cent from 2008-9 to 2012-13 and, during 2013-14, GDP growth averaged 4.1 per cent growth. 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 2013-14, Rupees 1,934.2 billion, or 7.6 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 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, over 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.

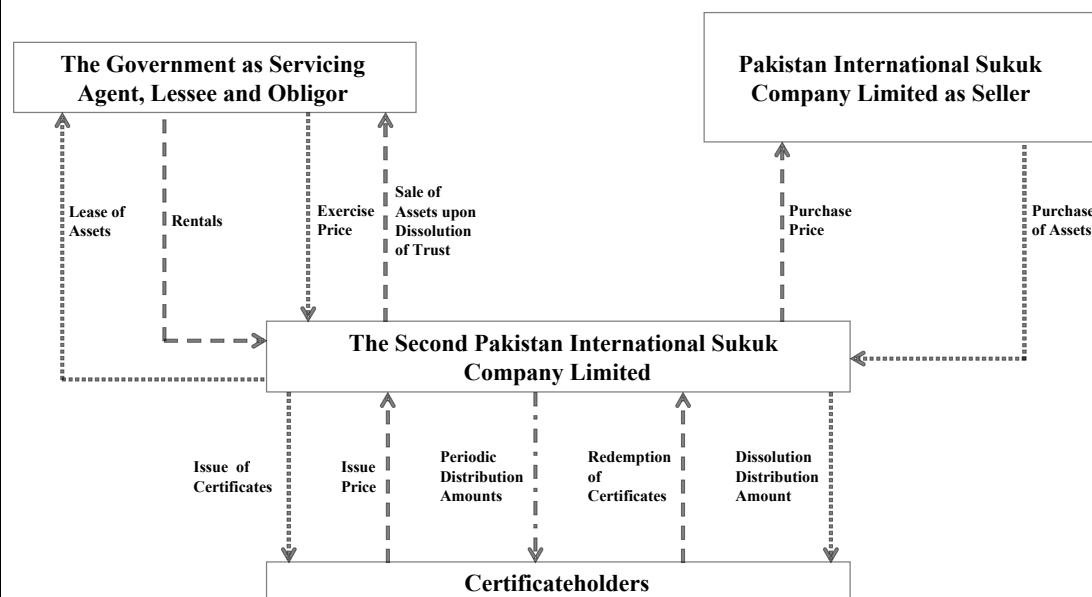
**Improved Governance.** The Government gives a high priority to improving national governance. While initial actions focused on accountability, especially with respect to loan and tax defaulters, the Government has embarked on a series of reform measures the key elements of which include devolution 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



## STRUCTURE DIAGRAM AND CASH FLOWS

Set out below is a simplified structure diagram and description of the principal cash flows underlying the transaction. Potential investors are referred to the “Terms and Conditions of the Certificates” and the detailed descriptions of the relevant Transaction Documents set out elsewhere in this offering circular for a fuller description of certain cash flows and for an explanation of the meaning of certain capitalised terms used below.

### Structure Diagram



### Principal cash flows

#### Payments by the Certificateholders and the Issuer

On the Issue Date, the Certificateholders will pay the issue price in respect of the Certificates to the Issuer, which will hold such proceeds of the issue of the Certificates as Trustee and will pay such amount to, or to the order of, Pakistan International Sukuk Company Limited as the purchase price payable under the Purchase Agreement (as defined herein) for the Assets (as defined below).

The assets to be purchased by the Trustee on the Issue Date will be the land comprising the M-2 Motorway, specified as such in Part 1 of the Schedule to the National Highway Authority Act 1991 (Act No. XI of 1991) of Pakistan, as amended, together with all constructions, superstructures, flyovers and interchanges made thereon as at the Issue Date (together, the **Assets**). Under the Substitution and Transfer Undertaking (as defined herein), the Government may substitute or replace the Assets with assets the identity of which may be determined by the Government in its sole and absolute discretion provided such assets comprise land, buildings and/or leasehold interests used for Shari’a compliant purposes.

#### Periodic Distribution Payments

The Trustee will, with effect from the Issue Date, lease the Assets (the **Lease Assets**) to the Lessee. On each Periodic Distribution Date, the Lessee will pay to the Trustee an amount reflecting the rental due in respect of the Lease Assets which is intended to be sufficient to fund the Periodic Distribution Amounts payable by the Issuer under the Certificates and shall be applied by the Trustee for that purpose.

***Dissolution Payment by the Obligor***

On the Scheduled Dissolution Date, the Trustee and the Delegate will have the right to require the Obligor pursuant to the unconditional and irrevocable undertaking of the Obligor under the Purchase Undertaking to purchase or procure the purchase of the Lease Assets from the Trustee for an amount equal to the exercise price which is payable by the Obligor to the Trustee and is intended to fund the Dissolution Distribution Amount payable by the Issuer under the Certificates.

The Trust may be dissolved prior to the Scheduled Dissolution Date for the following reasons: (i) redemption following a Dissolution Event (as defined herein) or (ii) upon the occurrence of a Total Loss Event (as defined herein) (save where the Lease Assets are replaced as provided in the Servicing Agency Agreement (as defined herein) after the occurrence of the Total Loss Event, see “*Summary of the Offering — Summary of the Certificates — Total Loss Event*”) in accordance with Condition 9.3 (*Capital Distributions of the Trust — Dissolution following a Total Loss Event*)).

In the case of (i) above, the amounts payable by the Issuer on the due date for dissolution will be funded by the Obligor purchasing or procuring the purchase of the Lease Assets and paying the exercise price to the Trustee pursuant to the terms of the Purchase Undertaking. In the case of (ii) above, the amounts payable by the Issuer on the due date for dissolution will be funded using any proceeds of insurance payable in respect of the Total Loss Event which (save where the Obligor replaces the Lease Assets as referred to above) are required to be paid into the Transaction Account (as defined herein) by no later than the 30th day after the occurrence of the Total Loss Event.

Should there be any shortfall in the insurance proceeds paid into the Transaction Account for funding the amounts payable by the Issuer on the due date for dissolution in the case of (ii) above, unless the Servicing Agent proves beyond reasonable doubt that (i) it has not breached, or for any reason failed to comply with, the relevant insurance related provisions of the Servicing Agency Agreement and (ii) that such shortfall is not in any way attributable to its negligence, the Servicing Agent (as defined herein) will irrevocably and unconditionally undertake to pay an amount equal to such shortfall into the Transaction Account by no later than close of business on the 31st day after the Total Loss Event has occurred.

## SUMMARY OF THE OFFERING

*The following overview should be read as an introduction to, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this offering circular. This overview may not contain all of the information that prospective investors should consider before deciding to invest in the Certificates. Accordingly, any decision by a prospective investor to invest in the Certificates should be based on a consideration of this offering circular as a whole.*

*Words and expressions defined in the “Terms and Conditions of the Certificates” shall have the same meanings in this overview. Reference to a “Condition” is to a numbered condition of the Terms and Conditions of the Certificates (the **Conditions**).*

### **Parties:**

**Issuer and Trustee:** The Second Pakistan International Sukuk Company Limited (Corporate Universal Identification No. 0090157) (in its capacity as issuer, the **Issuer** and in its capacity as trustee, the **Trustee**), a public limited company incorporated in Pakistan on 3 October 2014 under the Companies Ordinance, 1984 (Ordinance No. XLVII of 1984), having its registered office at Room No. 208, Q-Block, Finance Division, Pakistan Secretariat, Islamabad, Pakistan. The Issuer has been incorporated primarily for the purpose of participating in the transactions contemplated by the Transaction Documents (as defined below) to which it is a party.

**Ownership of the Issuer:** The Issuer is wholly owned by the Government.

**Seller:** Pakistan International Sukuk Company Limited (Corporate Universal Identification No. 0049004) (the **Seller**). The Seller is a public limited company incorporated in Pakistan on 3 December 2004 under the Companies Ordinance, 1984 (Ordinance No. XLVII of 1984), having its registered office at Room No. 208, Q-Block, Finance Division, Pakistan Secretariat, Islamabad, Pakistan. Pursuant to the Purchase Agreement, the Seller will sell to the Trustee, and the Trustee will purchase from the Seller, the Assets (as defined in “*Structure Diagram and Cashflows*”) in accordance with the terms of the Purchase Agreement.

**Ownership of the Seller:** The Seller is wholly owned by the Government.

**Lessor:** The Trustee (in its capacity as lessor, the **Lessor**). Pursuant to the Lease Agreement, the Lessor will lease to the Lessee, and the Lessee will lease from the Lessor, the Lease Assets in accordance with the terms of the Lease Agreement.

**Lessee:** The President of the Islamic Republic of Pakistan for and on behalf of the Islamic Republic of Pakistan (in its capacity as lessee, the **Lessee**). Pursuant to the Lease Agreement, the Lessee will lease from the Lessor, and the Lessor will lease to the Lessee, the Lease Assets in accordance with the terms of the Lease Agreement.

**Obligor:**

The President of the Islamic Republic of Pakistan for and on behalf of the Islamic Republic of Pakistan (in its capacity as obligor, the **Obligor**). In accordance with the terms of the Purchase Undertaking, the Obligor will, on the Scheduled Dissolution Date or following the service of an exercise notice (the **Exercise Notice**) by or on behalf of the Trustee, purchase or procure the purchase of the Lease Assets from the Trustee at the Exercise Price.

**Exercise Price** means:

- (a) at any time, the aggregate face amount of the Certificates then outstanding; plus
- (b) an amount equal to all accrued but unpaid Periodic Distribution Amounts (if any) relating to the Certificates plus an amount equal to any Servicing Agency Expenses in respect of which a Supplementary Rental payment has not been made in accordance with the Lease Agreement.

**Insurance Proceeds** means the proceeds of any claim under the Insurances (as defined in the Servicing Agency Agreement).

**Rental Payment Date** means 3 June and 3 December in each year, commencing on 3 June 2015 and to and including 3 December 2019 or any earlier date on which the Lease Agreement is terminated in accordance with its terms.

**Rental Period** means the period from and including, a Rental Payment Date (or with respect to the first Rental Period from and including the Lease Commencement Date (as defined in the Lease Agreement)) to but excluding the next succeeding Rental Payment Date.

**Servicing Agency Expenses** means, in respect of a Rental Period, all payments made by the Servicing Agent in respect of the services provided under the Servicing Agency Agreement in relation to the Lease Assets (other than in respect of the application of any Insurance Proceeds received by the Servicing Agent towards the repair, reinstatement and/or replacement of any Lease Assets, or part thereof).

**Supplementary Rental** means in respect of a Rental Period, an amount equal to the Servicing Agency Expenses (if any) incurred by the Lessor in relation to the Lease Assets (as defined in the Lease Agreement) in the immediately preceding Rental Period or as notified to the Lessee by the delivery of a Rental Notice in accordance with the Lease Agreement.

**Servicing Agent:**

The President of the Islamic Republic of Pakistan for and on behalf of the Islamic Republic of Pakistan (in its capacity as

	servicing agent, the <b>Servicing Agent</b> ). Under the Lease Agreement, the Lessor shall be responsible for obtaining insurance for the Lease Assets, paying all Proprietorship Taxes and Levies (each as defined in the Servicing Agency Agreement) (if any) in respect of the Lease Assets and performing all major maintenance and structural repair on the Lease Assets. In accordance with the terms of the Servicing Agency Agreement, the Lessor will delegate the responsibility to perform, or procure the performance of, all major maintenance and structural repair and the payment of Proprietorship Taxes and Levies (if any) and the responsibility for ensuring that the Lease Assets are insured against a Total Loss Event, to the Servicing Agent.
<b>Joint Lead Managers:</b>	Citigroup Global Markets Limited Deutsche Bank AG, London Branch Dubai Islamic Bank PJSC Standard Chartered Bank
<b>Delegate:</b>	Deutsche Trustee Company Limited (the <b>Delegate</b> ). In accordance with the terms of the Declaration of Trust, the Trustee will unconditionally and irrevocably delegate to the Delegate the present and future powers, authorities and discretions vested in the Trustee by certain provisions of the Declaration of Trust.
<b>Principal Paying Agent:</b>	Deutsche Bank AG, London Branch.
<b>U.S. Transfer Agent, U.S. Registrar and Paying Agent:</b>	Deutsche Trust Company Americas.
<b>Euro Transfer Agent and Euro Registrar:</b>	Deutsche Bank Luxembourg S.A..
<b><u>Summary of the Structure and Transaction Documents:</u></b>	
<b>Summary of the Structure:</b>	An overview of the structure of the transaction and the principal cash flows is set out in the section entitled “ <i>Structure Diagram and Cash Flows</i> ”.
<b>Summary of the Transaction Documents:</b>	A description of the principal terms of the significant Transaction Documents is set out in the section entitled “ <i>Summary of the Principal Transaction Documents</i> ”.
<b><u>Summary of the Certificates:</u></b>	
<b>Certificates:</b>	U.S.\$ 1,000,000,000 trust certificates due 2019.
<b>Status of Certificates:</b>	Each Certificate will evidence an undivided ownership interest in the Trust Assets (as defined below), subject to the terms of the Declaration of Trust and the Conditions, and will be a limited recourse obligation of the Issuer. Each Certificate will rank <i>pari passu</i> , without any preference or priority, with the other Certificates issued in accordance with the Conditions.

**Status of the Government's  
Obligations:**

The payment obligations of the Government under the Transaction Documents are direct, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Government 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 13) of the Government. The due and punctual performance of the obligations of the Government with respect thereto is backed by the full faith and credit of the Government.

**Trust Assets:**

Pursuant to the Declaration of Trust, the Trustee will declare that it will hold certain assets (the **Trust Assets**), consisting of:

- (a) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Lease Assets;
- (b) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given to the Trustee by the Government and/or the Seller pursuant to any of the Transaction Documents);
- (c) all monies standing to the credit of the Transaction Account from time to time; and
- (d) all proceeds of the foregoing,

on trust absolutely for the Certificateholders as owners and beneficiaries *pro rata* according to the face amount of Certificates held by each holder of Certificates, in accordance with the Declaration of Trust and the Conditions.

**Issue Date:**

3 December 2014.

**Issue Price:**

100 per cent of the aggregate face amount of the Certificates.

**Periodic Distribution Dates:**

Each of 3 June and 3 December in each year commencing on 3 June 2015 and, subject to Condition 7 (*Periodic Distributions*), ending on the Scheduled Dissolution Date.

**Periodic Distribution Amounts:**

On each Periodic Distribution Date, the Certificateholders will receive a Periodic Distribution Amount determined in accordance with Condition 7 (*Periodic Distributions*) representing a defined share of the Rental (as defined in the Lease Agreement) paid by the Lessee to the Lessor pursuant to the Lease Agreement in respect of the Lease Assets.

**Scheduled Dissolution Date:**

3 December 2019.

<b>Scheduled Dissolution of the Trust:</b>	Upon receipt by the Trustee of the Exercise Price payable in accordance with the terms of the Purchase Undertaking, and unless the Certificates are previously redeemed or purchased and cancelled, the Trustee will apply the Exercise Price to redeem each Certificate at the Dissolution Distribution Amount and the Trust will be dissolved by the Trustee on the Scheduled Dissolution Date.
<b>Dissolution Distribution Amount:</b>	<p>In relation to each Certificate, means the aggregate of:</p> <ul style="list-style-type: none"> <li>(a) the outstanding face amount of such Certificate; and</li> <li>(b) all accrued and unpaid Periodic Distribution Amounts in respect of such Certificate.</li> </ul>
<b>Early Dissolution of the Trust:</b>	<p>The Trust may only be dissolved prior to the Scheduled Dissolution Date upon the occurrence of:</p> <ul style="list-style-type: none"> <li>(a) a Dissolution Event which is continuing; or</li> <li>(b) a Total Loss Event.</li> </ul> <p>In the case of paragraph (a), the Certificates will be redeemed in accordance with Condition 9.2 (<i>Capital Distributions of the Trust — Dissolution Following a Dissolution Event</i>) and pursuant to the exercise of the Trustee's rights under the Purchase Undertaking. The Exercise Price payable under the Purchase Undertaking will be used to fund the redemption of the Certificates.</p> <p>In the case of paragraph (b) the Certificates will be redeemed in accordance with Condition 9.3 (<i>Capital Distributions of the Trust — Dissolution following a Total Loss Event</i>).</p>
<b>Dissolution Events:</b>	The Dissolution Events are described in Condition 13 ( <i>Dissolution Events</i> ). Following the occurrence of a Dissolution Event which is continuing, the Certificates may be redeemed in full at an amount equal to the Dissolution Distribution Amount in the manner described in Condition 13 ( <i>Dissolution Events</i> ).
<b>Total Loss Event:</b>	Save where the Lease Assets are replaced as provided in the Servicing Agency Agreement by the 30th day after the occurrence of a Total Loss Event, the occurrence of a Total Loss Event will result in the redemption of the Certificates and the consequent dissolution of the Trust in accordance with Condition 9.3 ( <i>Capital Distributions of the Trust — Dissolution following a Total Loss Event</i> ) on the 31st day after the occurrence of the Total Loss Event following notification thereof by the Delegate in accordance with Condition 16 ( <i>Notices</i> ). The Servicing Agent is responsible for ensuring that the Lease Assets are, so long as the Certificates are outstanding, insured against a Total Loss

Event. If a Total Loss Event occurs, the Servicing Agent undertakes to ensure that all Insurance Proceeds in respect thereof (if any) are in an amount equal to the Insurance Coverage Amount and are paid in U.S. dollars into the Transaction Account by no later than the 30th day after the occurrence of the Total Loss Event.

If a Total Loss Event occurs and the Lease Assets are not replaced as discussed above, and an amount (if any) less than the Insurance Coverage Amount is credited to the Transaction Account (the difference between the Insurance Coverage Amount and the amount credited to the Transaction Account being the **Total Loss Shortfall Amount**), then the Servicing Agent, unless it proves beyond reasonable doubt that (i) it has not breached, or for any reason failed to comply with, the relevant insurance related provisions of the Servicing Agency Agreement and (ii) that such shortfall is not in any way attributable to its negligence, will irrevocably and unconditionally undertake to pay (in same day, freely transferable, cleared funds) the Total Loss Shortfall Amount directly into the Transaction Account by no later than close of business on the 31st day after the Total Loss Event has occurred, such that the amount standing to the credit of the Transaction Account on the 31st day following the occurrence of a Total Loss Event represents the aggregate of the insurance proceeds payable in respect of such Total Loss Event and the Total Loss Shortfall Amount funded by the Servicing Agent in accordance with the terms of the Servicing Agency Agreement.

Rentals shall cease to accrue under the Lease with effect from the date on which a Total Loss Event (if any) occurs, and no additional rental payment shall be made thereafter. Accordingly no additional rental shall be payable in respect of the period between the date on which the Total Loss Event occurs and the date on which the Total Loss Shortfall Amount (if any) is paid into the Transaction Account.

See Condition 5.1 (— *Summary of the Trust*).

**Insurance Coverage Amount** means an amount equal to the aggregate of:

- (a) the face amount of all Certificates for the time being outstanding;
- (b) all accrued and unpaid Periodic Distribution Amounts relating to such Certificates;
- (c) an amount equal to the Periodic Distribution Amounts relating to such Certificates which will accrue during the period beginning on the date on which the Total Loss Event occurs and ending on the 31st day following the date on which a Total Loss Event occurs; and



- (d) without duplication and double counting, an amount equal to any Servicing Agency Expenses outstanding under the terms of the Servicing Agency Agreement in relation to the Lease Assets.

**Total Loss Event** means the total loss or destruction of, or damage to the whole of the Lease Assets or any event or occurrence that renders the whole of the Lease Assets permanently unfit for any economic use and (but only after taking into consideration any insurances or other indemnity granted in each case by any third party in respect of the Lease Assets) the repair or remedial work in respect thereof is wholly uneconomical.

**Negative Pledge and Cross Default:**

So long as any of the Certificate remains outstanding, the Government 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 Certificates equally and rateably therewith, except in certain limited circumstances as set out in Condition 4.

Condition 13 provides that Certificateholders who hold not less than 25 per cent in aggregate face amount of the Certificates then outstanding may, in writing, request the Delegate to declare the Certificates to be immediately due and payable at their face amount if, *inter alia*, the Government is in default in relation to any External Indebtedness or guarantee thereof in excess of U.S.\$25,000,000, the Government declares a moratorium in respect of its External Indebtedness or the Government 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 13.

**Asset Substitution:**

Pursuant to the Substitution and Transfer Undertaking entered into by the Trustee in favour of the Government, the Government has the right to oblige the Trustee to transfer the Lease Assets specified in a Substitution Notice (as defined in the Substitution and Transfer Undertaking), the identity of which shall be determined by the Government in its sole and absolute discretion (the **Substituted Lease Assets**) against the transfer to the Trustee of the ownership in and to certain new assets (the **New Lease Assets**). The Government will be obliged to certify that the value of the New Lease Assets is not less than the value of Substituted Lease Assets on the relevant Substitution Date (as defined in the Substitution and Transfer Undertaking).

In order to effect the substitution, the Trustee and the Government will enter into a Transfer Agreement (as defined in the Substitution and Transfer Undertaking) to effect the transfer of the Substituted Lease Assets and the New Lease Assets.

<b>Purchase of Certificates held by the Issuer or the Government:</b>	The Issuer or the Government may at any time purchase Certificates in the open market or otherwise.
<b>Transaction Account:</b>	The U.S. dollar account (the <b>Transaction Account</b> ) maintained in the name of the Trustee with the Principal Paying Agent.
<b>Limited Recourse and Non-Petition:</b>	<p>Each Certificate will evidence an undivided ownership interest in the Trust Assets. No amount whatsoever shall be due and payable in respect of the Certificates except to the extent that funds for that purpose are available from the Trust Assets.</p> <p>The Delegate and the Certificateholders shall only be entitled to deal with the Lease Assets as expressly permitted by the Transaction Documents and the sole right of the Delegate and the Certificateholders against the Trustee or the Government shall be to enforce their respective obligations under the Transaction Documents.</p> <p>Certificateholders will not be able to institute against, or join with any other person in instituting against, The Second Pakistan International Sukuk Company Limited any bankruptcy, reorganisation, arrangement or liquidation proceedings or other proceedings under any bankruptcy or similar law.</p>
<b>Role of Delegate:</b>	<p>Pursuant to the Declaration of Trust, the Trustee will delegate to the Delegate all of the present and future powers, authorities and discretions vested in the Trustee by certain provisions of the Declaration of Trust. In particular, the Delegate shall be entitled to:</p> <ul style="list-style-type: none"> <li>a) deliver an Exercise Notice to the Government in accordance with the Purchase Undertaking; and</li> <li>b) following a Dissolution Event, take any enforcement action against the Government in the Trustee's name.</li> </ul>
<b>Face Amounts of Certificates:</b>	The Certificates will be issued in minimum face amounts of U.S.\$200,000 and in integral multiples of U.S.\$1,000 in excess thereof.
<b>Form and Delivery of the Certificates:</b>	<p>The Certificates are (1) Regulation S Certificates and (2) Rule 144A Certificates.</p> <p>Regulation S Certificates will be represented on issue by beneficial interests in one or more Regulation S Global Certificates, in fully registered form which will be deposited with the common depositary for, and registered in the name of a nominee of Euroclear and Clearstream, Luxembourg. Beneficial interests in the Regulation S Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear or Clearstream,</p>

Luxembourg. Rule 144A Certificates will be represented on issue by beneficial interests in one or more Rule 144A Global Certificates in fully registered form which will be deposited with the custodian for, and registered in the name of Cede & Co. as nominee for DTC. Beneficial interests in the Rule 144A Global Certificates will be shown on, and transfers thereof will only be effected through, records maintained by DTC and its direct or indirect participants. See “*Global Certificates*” and “*Clearance and Settlement*”.

Definitive Certificates evidencing holdings of Certificates will be issued in exchange for interests in the Regulation S Global Certificates or the Rule 144A Global Certificates, as applicable (together, the **Global Certificates**) only in certain limited circumstances.

**Clearance and Settlement:**

Certificateholders must hold their interest in the relevant Global Certificates in book-entry form through DTC or Euroclear and/or Clearstream, Luxembourg. Beneficial interests in the Rule 144A Global Certificates will be shown on, and transfers thereof will only be effected through, records maintained by DTC and its direct or indirect participants, including Euroclear and Clearstream, Luxembourg. Beneficial interests in the Regulation S Global Certificates will be shown on and transfer thereof will be effected only through records maintained by Euroclear and Clearstream, Luxembourg. Transfers of interests in the Global Certificates between Euroclear, Clearstream, Luxembourg and DTC will be in accordance with the usual rules and operating procedures of the relevant clearing system. See “*Clearance and Settlement*”.

**Withholding Tax:**

All payments by the Government under the Transaction Documents to which it is a party are to be made without withholding or deduction for, or on account of, any Taxes imposed in Pakistan (or any political sub-division or authority thereof or therein having power to tax). In the event that any such deduction is made, the Government will be required to pay to the Trustee additional amounts so that the Trustee will receive the full amount which otherwise would have been due and payable under the Transaction Documents.

All payments by the Issuer in respect of the Certificates shall be made without withholding or deduction for, or on account of, Taxes unless the withholding or deduction of the Taxes is required by law. The Government has agreed in the Transaction Documents that, if the Issuer is required to make any payment under the Certificates after deduction or withholding for: (a) Taxes; or (b) as otherwise required by applicable law, the Government will, subject to the exceptions set out in Condition 10 (*Taxation*), pay to the Issuer additional amounts so that the net amount received by the Certificateholders will equal the full amount which would have been receivable by the Certificateholders had no

	such deduction or withholding been made.
<b>Use of Proceeds:</b>	The net proceeds of the issue of the Certificates will be paid by the Issuer (in its capacity as Purchaser) on the Issue Date to or to the order of the Seller as the purchase price for the Assets pursuant to the Purchase Agreement to be used for the Government's general budgetary purposes.
<b>Listing and Trading:</b>	Application has been made to admit the Certificates to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Luxembourg Stock Exchange's Euro MTF market (the <b>Euro MTF Market</b> ). The Euro MTF Market is not a regulated market pursuant to the provisions of Directive 2004/39/EC. This offering circular constitutes a prospectus for the purposes of the Luxembourg law dated 10 July 2005 on prospectuses for securities, as amended.
<b>Certificateholder Meetings:</b>	A summary of the provisions for convening meetings of Certificateholders to consider matters relating to their interests as such is set out in Condition 17 ( <i>Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination</i> ).
<b>Tax Considerations:</b>	See the section entitled " <i>Taxation</i> " for a description of certain tax considerations applicable to the Certificates.
<b>Governing Law:</b>	<p>The Purchase Agreement and the Lease Agreement will be governed by, and construed in accordance with the laws of Pakistan.</p> <p>The Purchase Undertaking, the Declaration of Trust, the Agency Agreement, the Servicing Agency Agreement, the Substitution and Transfer Undertaking and the Certificates (including any non-contractual obligations arising out of or in connection with the same), will be governed by, and construed in accordance with, English law.</p>
<b>Transaction Documents:</b>	The Declaration of Trust, the Agency Agreement, the Purchase Agreement, the Lease Agreement, the Servicing Agency Agreement, the Purchase Undertaking, the Substitution and Transfer Undertaking and any other agreements, deeds, undertakings or documents designated as such by the parties to the Transaction Documents and which can be entered into by the parties from time to time (together, the <b>Transaction Documents</b> ).
<b>Rating:</b>	<p>On issuance, the Certificates are expected to be assigned a rating of "B-" by Standard &amp; Poor's Ratings Services (<b>Standard &amp; Poor's</b>) and "Caal" by Moody's Investors Service Singapore Pte. Ltd. (<b>Moody's</b>).</p> <p><i>A rating is not a recommendation to buy, sell or hold the Certificates (or beneficial interests therein). Ratings do not address the likelihood or timing of payment and may be</i></p>

*subject to revision, suspension or withdrawal at any time by the assigning rating organisation.*

**Selling Restrictions:**

There are restrictions on the offer, sale and transfer of the Certificates in the United States, the United Kingdom, Pakistan, Hong Kong, Singapore, the United Arab Emirates (excluding the Dubai International Financial Centre), Dubai International Financial Centre, the Kingdom of Saudi Arabia and Malaysia. See the section entitled “*Plan of Distribution*”.

## **RISK FACTORS**

*An investment in the Certificates involves certain risks. Prospective investors should carefully consider, in the light of their own financial circumstances and investment objectives the following factors, in addition to the matters set forth elsewhere in this offering circular, prior to investing in the Certificates. Each of the Government and the Issuer believes that the factors described below represent the principal risks inherent in investing in the Certificates, but the Government and the Issuer may be unable to pay any amounts on or in connection with any Certificate for other reasons and neither the Government nor the Issuer represents that the statements below regarding the risks of holding any Certificate are exhaustive or that the statements below relate to any other risks not described therein. There may also be other considerations, including some which may not be presently known to the Government or the Issuer or which the Government or the Issuer currently deem immaterial, that may impact on any investment in the Certificates.*

*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. Words and expressions defined elsewhere in this offering circular shall have the same meanings in this section.*

### **Investment consideration relating to the Issuer**

#### ***The Issuer has no operating history and must rely on payments by the Government.***

The Issuer is a newly formed entity and has no operating history. The Issuer will not engage in any business activity other than the issuance of the Certificates, the acquisition of the Assets as described herein, acting in the capacity as trustee and other activities incidental or related to the foregoing as required under the Transaction Documents.

The Issuer's only assets, which will be held in trust for Certificateholders, will be the Trust Assets, including its right to receive payments from the Lessee under the Lease Agreement and payments from the Obligor under the Purchase Undertaking. Therefore the Issuer is subject to all the risks to which the Government is subject to the extent that such risks could limit the Government's ability to satisfy in full and on a timely basis its obligations under the Transaction Documents. Investors should therefore carefully review the description of the Government herein under "*The Islamic Republic of Pakistan*".

The ability of the Issuer to pay amounts due on the Certificates will primarily be dependent upon receipt by the Issuer from the Lessee of all amounts due under the Lease Agreement and from the Obligor of the Exercise Price under the Purchase Undertaking. In the event of any shortfall in such amounts, the ability of the Issuer to meet its payment obligations under the Certificates may be adversely affected.

### **Risk factors relating to the Government**

#### ***Unrealised 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: further fiscal consolidation, persistent inflation, enhancing tax revenues, strengthening the balance of payments and reserves, structural reforms, improving the social safety net, managing the budget deficit and privatisation of SOEs.

The Government has undertaken initiatives to increase the number of tax payers and has exceeded its target of issuing 120,000 additional notices to potential tax payers since July 2013 but the tax receipt targets may not 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 has undertaken 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. Certain privatisations have been delayed in 2014 due to market conditions. 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 may not meet certain quantitative criteria set by the IMF from time to time and, although it has done so in the past, the IMF may not waive any breaches of the quantitative criteria it sets as a condition to further draw-downs under the Extended Fund Facility. See “*Public Debt – Relationship with Multilateral and Bilateral Creditors – IMF*”.

***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 1,752 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 affected 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. In June 2014, armed militants attacked Jinnah International Airport in Karachi, killing 36 people and injuring at least 18 people.

In June 2014, Pakistan armed forces started an operation by the name of *Zarb-e-Azab* (meaning *Sharp and Cutting Strike*) against the terrorists. The operation is currently ongoing and the rate of terrorist activity has declined. Approximately 1,200 militants have been killed and thousands fled to Afghanistan. Pakistan armed forces successfully destroyed the command centres of the terrorists in this operation. Although, there has been a significant reduction in the number of terrorist attacks in Pakistan, extremism remains a significant threat and there is no assurance that the operation will result in the goal of eliminating terrorism in 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's current democratic government was peacefully elected in May 2013, before which Pakistan had a military government for 33 of its 67 years of independence and other elected governments were unable to complete their terms. 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 Certificates. In August 2014 many anti-government protesters marched on Pakistan's Parliament in Islamabad in a protest organised by Imran Khan's political party, *Pakistan Tehreek-e-Insaf (PTI)* to demand the resignation of Pakistan's current Prime Minister Nawaz Sharif and the dissolution of his government amid allegations of rigging in the 2013 general election. Islamic cleric Mohammad Tahir-ul-Qadri's political party, *Pakistan Awami Tehreek (PAT)*, protested in parallel, informally allied with the PTI protest. The protest posed a threat to the security of Islamabad and the government mobilised law enforcement agencies to control it. After prolonged protest, PAT decided to cease its sit-in in front of the Parliament after reaching an understanding with the government. PTI's protest and sit-ins are on-going. However, after the departure of PAT, demonstrations by PTI in front of Parliament have lost momentum. After some initial economic losses, business activity has resumed. 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. In addition, there was extensive flooding in 2014 which reduced the output of Pakistan's agricultural sector. 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 Certificates although Pakistan has never defaulted on its sovereign financial obligations.

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

Moody’s current rating of the Government is Caa1 (stable), Moody’s revised its outlook on the Government from negative to stable on 14 July 2014. Standard & Poor’s long-term rating of the Government 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.

**Risk factors relating to the Certificates**

***There is currently no secondary market for the Certificates and there may be limited liquidity for Certificateholders.***

There is no assurance that a secondary market for the Certificates will develop or, if it does develop, that it will provide the Certificateholders with liquidity of investment or that it will continue for the life of the Certificates. Accordingly, a Certificateholder may not be able to find a buyer to buy its Certificates readily or at prices that will enable the Certificateholder to realise a desired yield or a yield comparable to similar interests that have a developed secondary market. The market value of the Certificates may fluctuate and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Certificates. Accordingly, the purchase of the Certificates is suitable only for investors who can bear the risks associated with a lack of liquidity in the Certificates and the financial and other risks associated with an investment in the Certificates. An investor in the Certificates must be prepared to hold the Certificates for any period of time up until their maturity.

***The Certificates may be subject to restrictions on transfer which may adversely affect the value of the Certificates.***

The Certificates have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and the Issuer has not undertaken to effect any exchange offer for the Certificates in the future. The Certificates may not be offered in the United States except pursuant to an exemption from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws. The Certificates and the Agency Agreement will contain provisions that will restrict the Certificates from being offered, sold or otherwise transferred except pursuant to the exemptions available pursuant to Rule 144A and Regulation S, or other exemptions, under the Securities Act. Furthermore, the Issuer has not registered the Certificates under any other country’s securities laws. Investors must ensure that their offers and

sales of the Certificates within the United States and other countries comply with applicable securities laws. See “*Transfer Restrictions*”.

***The ratings on the Certificates may be changed at any time and may adversely affect the market value of the Certificates.***

The Certificates are expected to be rated “B-” by Standard & Poor’s and “Caa1” by Moody’s. A credit rating may not reflect all risks. The ratings may not reflect the potential impact of all risks related to the transaction structure, the market, the additional factors discussed above or any other factors that may affect the value of the Certificates. 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.

***The Certificates are limited recourse obligations.***

The Certificates represent an undivided ownership interest solely in the Trust Assets. Recourse to the Issuer and the Trustee in respect of the Certificates is limited to the Trust Assets and proceeds of such Trust Assets are the sole source of payments on the relevant Certificates as set out in the Transaction Documents. Upon the occurrence of a Dissolution Event, the sole rights of each of the Delegate and, through the Delegate, the Certificateholders will be against the Trustee and the Government to perform their respective obligations under the Transaction Documents. Certificateholders will otherwise have no recourse to any assets of the Trustee or the Government in respect of any shortfall in the expected amounts due under the relevant Trust Assets. Reflecting the limited recourse nature of the Certificates, Certificateholders will also not be able to petition for, or join any other person in instituting proceedings for, the reorganisation, liquidation, winding up or receivership of the Trustee as a consequence of such shortfall or otherwise.

The Government is obliged to make certain payments under the Transaction Documents directly to the Trustee, and the Delegate will have direct recourse against the Government to recover such payments due to the Trustee pursuant to the Transaction Documents. In the absence of default by the Delegate, investors have no direct recourse to the Government and there is no assurance that the net proceeds of the realisation of, or enforcement with respect to, the Trust Assets will be sufficient to make all payments due in respect of the Certificates. After enforcing or realising the Trust Assets and distributing the net proceeds of such Trust Assets in accordance with Condition 5.2 (*Application of Proceeds from Trust Assets*), the obligations of the Issuer in respect of the Certificates shall be satisfied and neither the Delegate nor any Certificateholder may take any further steps against the Issuer or the Trustee to recover any further sums in respect of such Certificates and the right to receive any such sums unpaid shall be extinguished. Furthermore, the Trustee, the Delegate and the Certificateholders shall only be entitled to deal with the Trust Assets as expressly permitted by the Transaction Documents and the sole right of the Delegate and the Certificateholders against the Trustee or the Government shall be to enforce the Government’s obligations under the Transaction Documents.

***No guarantee that listing will be approved***

Application has been made to admit the Certificates 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.

***The Declaration of Trust may be modified without notice to Certificateholders.***

The Declaration of Trust contains provisions permitting the Delegate from time to time and at any time without any consent or sanction of the Certificateholders to make any modification to the Declaration of Trust if, in the opinion of the Delegate, (i) such modification is of a formal, minor or technical nature, or (ii) such modification is made to correct a manifest or proven (to the satisfaction of the Delegate) error, or (iii) such modification, waiver, authorisation or determination is not materially prejudicial to the interest of Certificateholders and is other than in respect of a Reserved Matter. Unless

the Delegate otherwise decides, any such modification shall as soon as practicable thereafter be notified to the Certificateholders and shall in any event be binding upon the Certificateholders.

***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 Certificates are legal investments for it; (ii) the Certificates can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of any Certificates. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Certificates 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 – Foreign Trade – Export and Imports – Imports”*.

***The United States Internal Revenue Service may treat the Certificates as an interest in a grantor trust for federal income tax purposes, which may result in the Issuer and U.S. Holders being subject to significant penalties.***

The Issuer believes that it is appropriate to treat the Certificates as representing debt obligations of the Government and intends to do so. However, the United States Internal Revenue Service (the **IRS**) may seek to characterise the Certificates as interests in a grantor trust for U.S. federal income tax purposes. Under this characterisation, the Issuer and U.S. Holders (as defined in *“Taxation—United States Federal Income Tax Considerations”*) would be required to comply with certain information reporting requirements applicable to foreign trusts, or risk significant penalties. The Issuer does not expect that it will provide information that would allow either itself or U.S. Holders to comply with these requirements if they were determined to be applicable. Should the IRS characterise the Certificates as interests in a grantor trust and should the Issuer be unable to provide the information necessary for itself and for U.S. Holders to comply with the foreign trust information reporting requirements, both the Issuer and U.S. Holders may be subject to significant penalties that may adversely affect the Issuer’s financial position and the returns of U.S. Holders from the Certificates. See *“Taxation—United States Federal Income Tax Considerations—Potential Alternative Characterisation”*.

***The Certificates may not be a suitable investment for all investors.***

The Certificates may not be a suitable investment for all investors. Each potential investor in the Certificates must determine the suitability of its investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Certificates, the merits and risks of investing in the Certificates and the information contained in this offering circular;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Certificates and the impact the Certificates will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Certificates, including where the currency of payment is different from the potential investor’s currency;

- understand thoroughly the terms of the Certificates and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

***Certificateholders may be adversely affected by a Total Loss Event despite the Issuer's obligation to adequately insure the Assets.***

Pursuant to the Lease Agreement, the Issuer is required, among other things, to insure the Assets. The Issuer has delegated this obligation to the Servicing Agent, and has undertaken in the Servicing Agency Agreement, *inter alia*, to insure the Assets in the name of the Issuer against the occurrence of a Total Loss Event at their full reinstatement value (which shall be not less than the aggregate face amount of the Certificates then outstanding plus an amount equal to at least 40 days' Rental as would be calculated in accordance with the Lease Agreement) and without duplication and double counting, an amount equal to any Servicing Agency Expenses outstanding under the terms of the Servicing Agency Agreement in relation to the Lease Assets. A Total Loss Event is defined as the total loss or destruction of, or damage to the whole of the Assets or any event or occurrence that renders the whole of the Assets permanently unfit for any economic use and (but only after taking into consideration any insurances or other indemnity granted by any third party in respect of the Assets ) the repair or remedial work in respect thereof is wholly uneconomical.

Nevertheless, should such an event occur, the lease will automatically terminate and unless the Servicing Agent procures new properties by the 30th day after the occurrence of the Total Loss Event that will be made subject to a replacement lease agreement, the Certificates will be redeemed using the proceeds of the insurance received by the Issuer. In connection with such termination, potential investors should be aware that (i) rental under the Lease will cease automatically upon the occurrence of a Total Loss Event and (ii) there may be a delay in the Issuer receiving the proceeds of insurance (or shortfall amounts from the Servicing Agent) and therefore in Certificateholders receiving the full Dissolution Distribution Amount in respect of their Certificates, and no additional Periodic Distribution Amount will be paid in respect of this delay. In connection to this, the Servicing Agency Agreement provides that if sufficient insurance proceeds are not paid into the Transaction Account by the 30th day after the occurrence of the Total Loss Event, the Government, as Servicing Agent, unless it proves beyond reasonable doubt that (i) it has not breached, or for any reason failed to comply with, the relevant insurance related provisions of the Servicing Agency Agreement and (ii) that such shortfall is not in any way attributable to its negligence, shall be required to pay any shortfall directly to the Transaction Account by no later than close of business on the 31st day after the occurrence of the Total Loss Event. The Delegate will be entitled to enforce this undertaking against the Government on behalf of the Certificateholders.

***Certificateholders may be adversely affected by a change of English law or the laws of Pakistan.***

The structure of the issue of the Certificates is based on English law and the laws of Pakistan and administrative practices in effect as at the date of this offering circular. The Declaration of Trust, the Conditions, the Agency Agreement, the Purchase Undertaking, the Substitution and Transfer Undertaking and the Servicing Agency Agreement are governed by and will be construed in accordance with English law, whereas the Purchase Agreement and the Lease Agreement are governed by and will be construed in accordance with the laws of Pakistan. No assurance can be given as to the impact of any possible change to English law, the laws of Pakistan or administrative practices in either jurisdiction after the date of this offering circular. Statements in the offering circular covering 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.

Therefore no assurance can be given as to whether any such change could adversely affect the ability of the Issuer to make payments under the Certificates or of the Government to comply with its obligations under the Transaction Documents to which it is a party.

***Certificateholders will be reliant on procedures of DTC, Euroclear and/or Clearstream, Luxembourg to exercise certain rights under the Certificates.***

The Certificates will be represented on issue by one or more Rule 144A Global Certificate that will be deposited with a custodian for DTC and one or more Regulation S Global Certificate that will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the global certificates, investors will not be entitled to receive Certificates in definitive form. DTC, Euroclear and Clearstream, Luxembourg, will maintain records of the beneficial interests in the global certificates. While the Certificates are represented by the global certificates, investors will be able to trade their beneficial interests only through DTC, Euroclear and Clearstream, Luxembourg and their respective participants.

While the Certificates are represented by the global certificates, the Issuer will discharge its payment obligation under the Certificates by making payments through the relevant clearing systems. A holder of a beneficial interest in a global certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the relevant Certificates. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interest in a global certificate.

Holders of beneficial interests in a global certificate will not have a direct right to vote in respect of the relevant Certificates. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

***There is no assurance that the Certificates will be Shari'a compliant.***

The Shariah Advisory Board of Citi Islamic Investment Bank E.C., Dr Hussein Hamid Hassan, the Shari'a advisor of Deutsche Bank AG, London Branch, the Executive Committee of the Fatwa & Shariah Advisory Board of Dubai Islamic Bank PJSC and the Shari'a Supervisory Committee of Standard Chartered Bank have approved that the Certificates are Shari'a compliant. However, there can be no assurance that the transaction structure or the issue and trading of the Certificates will be deemed to be Shari'a compliant by any other Shari'a board or Shari'a scholar. None of the Issuer, the Government, the Joint Lead Managers, the Delegate or the Agents makes any representation as to the Shari'a compliance of the Certificates and potential investors are reminded that, as with any Shari'a views, differences in opinion are possible. Potential investors should obtain their own independent Shari'a advice as to the compliance of the structure and the issue and trading of the Certificates with Shari'a principles.

***Certificateholders may be adversely affected by certain exchange rate risks and exchange controls.***

The Issuer will make payments to Certificateholders 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 (as some have done in the past) that could adversely affect an applicable exchange rate. 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 Certificates, (ii) the Investor's Currency-equivalent value of the amounts payable on the Certificates and (iii) the Investor's Currency-equivalent market value of the Certificates. As a result, the payments received by investors may be adversely affected.

Government and monetary authorities may impose (as some have 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 Certificates and as a result, the payments received by investors may be adversely affected.

***The Certificates 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 than expected under the Certificates.***

Under Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income, which may include Periodic Distribution Amounts, paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

On 24 March 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Luxembourg and Austria are required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in those Member States which still operate a withholding system when they are implemented. 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.

The end of the transitional period is 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).

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 Certificate 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 Directive.

#### ***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 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.

## TERMS AND CONDITIONS OF THE CERTIFICATES

*The following is the text of the Terms and Conditions of the Certificates which (subject to modification and except for the text in italics) will be endorsed on each Definitive Certificate (if issued) and will, save as provided in "Global Certificate", apply to each Global Certificate:*

The U.S.\$ 1,000,000,000 trust certificates due 2019 (the **Certificates**) will be issued by The Second Pakistan International Sukuk Company Limited (the **Issuer**) on 3 December 2014 (the **Issue Date**) and represent an undivided ownership interest in the Trust Assets (as defined in Condition 5.1) held on trust (the **Trust**) by the Issuer in its capacity as trustee (the **Trustee**) for the holders of such Certificates (the **Certificateholders**) pursuant to a declaration of trust (the **Declaration of Trust**) dated on or about 1 December 2014 made between the Issuer, in its capacity as issuer and as Trustee, the President of the Islamic Republic of Pakistan for and on behalf of the Islamic Republic of Pakistan (the **Government**) and Deutsche Trustee Company Limited as the delegate of the Trustee (the **Delegate**).

Payments relating to the Certificates will be made pursuant to an agency agreement dated on or about 1 December 2014 (the **Agency Agreement**) made between the Issuer, the Trustee, the Government, the Delegate, Deutsche Bank AG, London Branch as principal paying agent (in such capacity, the **Principal Paying Agent**) and, together with Deutsche Bank Trust Company Americas in its capacity as a paying agent and any further or other paying agents appointed from time to time in respect of the Certificates, the **Paying Agents**), Deutsche Bank Luxembourg S.A. as euro registrar (in such capacity, the **Euro Registrar**) and as euro transfer agent (in such capacity, the **Euro Transfer Agent**) and Deutsche Bank Trust Company Americas as U.S. registrar (the **U.S. Registrar**, which expression shall include any successor U.S. Registrar and together with the Euro Registrar, the **Registrars**), as U.S. transfer agent (the **U.S. Transfer Agent**, which expression shall include any successor U.S. Transfer Agent and together with the Euro Transfer Agent the **Transfer Agents**) and as **Paying Agent**. The Paying Agents and the Transfer Agents are together referred to in these Conditions as the **Agents**. References to the Agents or any of them shall include their successors.

These Conditions include summaries of, and are subject to, the detailed provisions of the Transaction Documents (as defined in Condition 5.1). In these Conditions, words and expressions defined and rules of construction and interpretation set out in the Declaration of Trust shall, unless defined herein or the context otherwise requires, have the same meanings herein. Copies of the Transaction Documents are available for inspection and/or collection during normal business hours at the specified offices of the Paying Agents. The Certificateholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Transaction Documents applicable to them.

Each initial Certificateholder, by its acquisition and holding of its interest in a Certificate, shall be deemed to authorise and direct the Issuer (as Trustee, on behalf of the Certificateholders), (i) to apply the sums paid by it in respect of the Certificates in making payment to the Seller as the purchase price for the Assets (as defined in Condition 5.1) and (ii) to enter into each Transaction Document to which it is a party, subject to the provisions of the Declaration of Trust and these Conditions.

### 1. FORM, DENOMINATION AND TITLE

#### 1.1 Form and Denomination

The Certificates are issued in registered form in face amounts of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof (each an **Authorised Denomination**).

Where Certificates are issued in definitive form, a Definitive Certificate (as defined below) will be issued to each Certificateholder in respect of its registered holding of Certificates. Such Definitive Certificates may either be, in the case of Certificates offered outside the U.S. in reliance on Regulation S of the United States Securities Act of 1933, as amended (the **Securities Act**), a **Regulation S Definitive Certificate** and, in the case of Certificates offered



within the U.S. to qualified institutional buyers in compliance with the exemption from registration provided by Rule 144A of the Securities Act, a **Rule 144A Definitive Certificate** (the Regulation S Definitive Certificates and the Rule 144A Definitive Certificates together being **Definitive Certificates**).

Each Definitive Certificate will be numbered serially with an identifying number which will be recorded on the relevant Definitive Certificate and in the register of Certificateholders (the **Register**).

*Upon issue, the Certificates offered outside the U.S. in reliance on Regulation S of the Securities Act will be represented by one or more Regulation S Global Certificates registered in the name of a nominee of, and deposited with a common depositary for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**) and the Certificates offered within the U.S. to qualified institutional buyers in compliance with the exemption from registration provided by Rule 144A of the Securities Act will be represented by one or more Rule 144A Global Certificates registered in the name of a nominee of, and deposited with a custodian for, The Depository Trust Company (**DTC**). The Conditions are modified by certain provisions contained in the Regulation S Global Certificates and the Rule 144A Global Certificates (together the **Global Certificates**). Except in certain limited circumstances, owners of interests in the Global Certificates will not be entitled to receive Definitive Certificates representing their holdings of Certificates. See “Global Certificates”.*

## 1.2 Title

The Issuer will cause the Registrars to maintain the Register in respect of the Certificates outside the United Kingdom and in accordance with the provisions of the Agency Agreement. Title to the Certificates passes only by registration in the Register. The persons in whose names any outstanding Certificates are for the time being registered (as set out in the Register) as the holder of any Certificates will (except as ordered by a court of competent jurisdiction or otherwise required by law) be treated as the absolute owner of the Certificates for all purposes (whether or not any payment thereon is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the physical Certificate representing such Certificates) and no person will be liable for so treating the holder of any Certificate. In these Conditions, **Certificateholder** and (in relation to a Certificate) **holder** have the further meanings given thereto in the Declaration of Trust.

## 2. TRANSFERS OF CERTIFICATES

### 2.1 Transfers

Subject to Conditions 2.4 and 2.5, a Certificate may be transferred in an Authorised Denomination only by depositing the relevant Definitive Certificate, with the form of transfer on the back duly completed and signed, at the specified office of any of the Transfer Agents.

*Transfers of interests in the Certificates evidenced by either a Regulation S Global Certificate or a Rule 144A Global Certificate will be effected in accordance with the rules of the relevant clearing systems through which the interest is held.*

### 2.2 Delivery of New Definitive Certificates

Each new Definitive Certificate to be issued upon any transfer of Certificates will, within five business days of receipt by the relevant Transfer Agent of the duly completed form of transfer endorsed on the relevant Definitive Certificate (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), be delivered at the specified office of the relevant Transfer Agent or mailed by uninsured mail at the risk of the holder

entitled to the Certificate to the address specified in the form of transfer. For the purposes of this Condition, **business day** shall mean a day on which banks are open for business in the city in which the specified office of the Transfer Agent with whom a Definitive Certificate is deposited in connection with a transfer is located.

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

### 2.3 **Formalities Free of Charge**

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

### 2.4 **Closed Periods**

No Certificateholder may require the transfer of a Certificate to be registered during the period of 15 days ending on (and including) the due date for any payment of the Dissolution Distribution Amount (as defined in Condition 9.1) or any Periodic Distribution Amount (as defined in Condition 7.1).

### 2.5 **Regulations**

All transfers of Certificates and entries on the Register will be made subject to the detailed regulations concerning transfer of Certificates scheduled to the Agency Agreement. The regulations may be changed by the Issuer from time to time with the prior written approval of the Registrars and the Delegate. A copy of the current regulations will be mailed (free of charge) by the relevant Registrar to any Certificateholder who requests in writing a copy of such regulations.

The holder of Certificates shall, in the limited circumstances described in the Global Certificates, be entitled to receive, in accordance with Condition 2.2 only one Definitive Certificate in respect of his entire holding of Certificates. In the case of a transfer of a portion of the face amount of a Certificate, a new Definitive Certificate in respect of the balance of the Certificates not transferred will be issued to the transferor in accordance with Condition 2.2.

## 3. **STATUS, LIMITED RECOURSE AND NON-PETITION**

### 3.1 **Status**

Each Certificate evidences an undivided ownership interest in the Trust Assets, subject to the terms of the Declaration of Trust and these Conditions, and is a limited recourse obligation of the Issuer. Each Certificate ranks *pari passu*, without any preference or priority, with the other Certificates.

*The payment obligations of the Government under the Transaction Documents are direct, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Government 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 13) of the Government. The*

*due and punctual performance of the obligations of the Government with respect thereto is backed by the full faith and credit of the Government.*

### **3.2 Limited Recourse and Non-Petition**

The proceeds of the Trust Assets are the sole source of payments in respect of the Certificates. Save as provided in the next sentence, the Certificates do not represent an interest in or obligation of any of the Issuer, the Obligor, the Lessee or the Delegate. Accordingly, Certificateholders, by subscribing for or acquiring the Certificates, acknowledge that they will have no recourse to any assets of the Issuer, the Trustee (other than the Trust Assets), the Obligor, the Lessee or the Delegate (to the extent that each of them fulfils all of its obligations under the Transaction Documents to which it is a party) in respect of any shortfall in the expected amounts from the Trust Assets to the extent the Trust Assets have been exhausted, following which all obligations of the Issuer shall be extinguished.

Each of the Obligor and the Lessee (each as defined in Condition 5.1) is obliged to make certain payments under the Transaction Documents directly to the Trustee and the Delegate will have direct recourse against the Obligor and the Lessee to recover such payments.

The net proceeds of realisation of, or enforcement with respect to, the Trust Assets may not be sufficient to make all payments due in respect of the Certificates. If, following the distribution of such proceeds, there remains a shortfall in payments due under the Certificates, subject to Condition 14, no holder of Certificates will have any claim against the Issuer or the Trustee (to the extent the Trust Assets have been exhausted), the Obligor, the Lessee or the Delegate (to the extent that each fulfils all of its obligations under the Transaction Documents to which it is a party) or against any assets (other than the Trust Assets to the extent not exhausted) in respect of such shortfall and any unsatisfied claims of Certificateholders shall be extinguished. The Trustee, the Delegate and the Certificateholders shall only be entitled to deal with the Trust Assets as expressly permitted by the Transaction Documents and the sole right of the Delegate and the Certificateholders against the Trustee or the Obligor shall be to enforce their respective obligations under the Transaction Documents.

Certificateholders will not be able to institute against, or join with any other person in instituting against, the Issuer or the Trustee any bankruptcy, reorganisation, arrangement or liquidation proceedings or other proceedings under any bankruptcy or similar law.

### **3.3 Agreement of Certificateholders**

By purchasing Certificates, each Certificateholder is deemed to have agreed that notwithstanding anything to the contrary contained in these Conditions or any Transaction Document:

- (a) no amount whatsoever shall be due and payable by or on behalf of the Issuer or the Trustee except to the extent funds are available therefor from the Trust Assets and further agrees that no recourse shall be had for the payment of any amount owing hereunder or under any Transaction Document, whether for the payment of any fee or other amount hereunder or any other obligation or claim arising out of or based upon any Transaction Document, against the Issuer or the Trustee to the extent the Trust Assets have been exhausted following which all obligations of the Issuer and the Trustee shall be extinguished; and
- (b) no recourse (whether by institution or enforcement of any legal proceeding or assessment or otherwise) in respect of any breaches of any duty, obligation or undertaking of the Issuer or the Trustee arising under these Conditions or otherwise in connection with the Certificates by virtue of any law, statute or otherwise shall be

had against any shareholder, officer or director of the Issuer or the Trustee in their capacity as such and any and all personal liability of every such shareholder, officer or director in their capacity as such for any breaches by the Issuer or the Trustee of any such duty, obligation or undertaking is hereby expressly waived and excluded to the extent permitted by law.

#### 4. **NEGATIVE PLEDGE**

##### 4.1 **Negative Pledge**

Pursuant to the Purchase Undertaking, the Government has undertaken that so long as any Certificate remains outstanding (as defined in the Declaration of Trust) the Government 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 Government's obligations under the Purchase Undertaking, the Lease Agreement and the Servicing Agency Agreement 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 Declaration of Trust) of Certificateholders.

##### 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 Declaration of Trust or thereafter.

#### 4.3 Exceptions

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

- (a) any Security upon property to secure Public External Indebtedness of the Government 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 Government 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 Government or any Guarantee by the Government 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 13), including gold and foreign exchange. Because the State Bank of Pakistan is a juridical entity separate from the Government, the Government believes that its 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 the Government's obligations under the Purchase Undertaking, the Lease Agreement and the Servicing Agency Agreement equally and rateably.*

## 5. TRUST

### 5.1 Summary of the Trust

The Trustee will enter into a purchase agreement (the **Purchase Agreement**) on or about 1 December 2014 with Pakistan International Sukuk Company Limited (in such capacity, the **Seller**). Pursuant to the Purchase Agreement the Seller will sell its ownership in and to certain assets as described therein (the **Assets**) to the Trustee. The Trustee (in such capacity, the **Lessor**) will, with effect from the Issue Date, lease the Assets (the **Lease Assets**) to the Government (in such capacity, the **Lessee**) pursuant to a lease agreement (the **Lease Agreement**) to be dated on or about 1 December 2014. Under a servicing agency agreement

(the **Servicing Agency Agreement**) to be dated on or about 1 December 2014 the Lessor will appoint the Government as servicing agent (in such capacity, the **Servicing Agent**) in respect of the Lease Assets.

Upon the occurrence of a Total Loss Event (as defined in Condition 9.3) (save where the Government replaces the Lease Assets pursuant to the Servicing Agency Agreement by no later than the 30th day after the occurrence of the Total Loss Event), subject to the Delegate having received the Insurance Coverage Amount and/or the Total Loss Shortfall Amount (as described below), the Certificates will be redeemed and the Trust will be dissolved by the Trustee in accordance with Condition 9.3 on the 31st day after the occurrence of the Total Loss Event. The Certificates will be redeemed in accordance with Condition 9.3 using the proceeds of insurance payable in respect of the Total Loss Event or, if a Total Loss Event occurs and an amount (if any) less than the Insurance Coverage Amount (as defined below) is credited to the Transaction Account in accordance with the Servicing Agency Agreement (the difference between the Insurance Coverage Amount and the amount credited to the Transaction Account being the **Total Loss Shortfall Amount**), the aggregate of the insurance proceeds so credited and the Total Loss Shortfall Amount payable by the Servicing Agent in accordance with the terms of the Servicing Agency Agreement.

In these Conditions, **Insurance Coverage Amount** means an amount equal to the aggregate of (a) the face amount of all Certificates for the time being outstanding; (b) all accrued and unpaid Periodic Distribution Amounts relating to such Certificates; (c) an amount equal to the Periodic Distribution Amounts relating to such Certificates which will accrue during the period beginning on the date on which the Total Loss Event occurs and ending on the 31st day following the date on which a Total Loss Event occurs; and (d) without duplication and double counting, an amount equal to any Servicing Agency Expenses outstanding under the terms of the Servicing Agency Agreement in relation to the Lease Assets.

The Government (in such capacity, the **Obligor**) will enter into a purchase undertaking (the **Purchase Undertaking**) to be dated on or about 1 December 2014 in favour of the Trustee and the Delegate, pursuant to which it will unconditionally and irrevocably undertake to purchase, or procure the purchase of, the Lease Assets from the Trustee on the Scheduled Dissolution Date (as defined in Condition 9.1) or, if earlier, on the due date for dissolution in accordance with Condition 13 at the Dissolution Distribution Amount.

The Trustee will execute a substitution and transfer undertaking (the **Substitution and Transfer Undertaking**) to be dated on or about 1 December 2014 in favour of the Government. Pursuant to the Substitution and Transfer Undertaking, the Government may, by exercising its option under the Substitution and Transfer Undertaking and serving notice on the Trustee, require the substitution at any time of the Lease Assets and require the transfer of Lease Assets against the cancellation of Certificates purchased pursuant to Condition 12.

The Issuer has established a transaction account (the **Transaction Account**) in the name of the Issuer with the Principal Paying Agent into which the Government (acting in its capacities as Lessee and Obligor) will deposit all amounts due to the Issuer under the Lease Agreement and the Purchase Undertaking, respectively.

Pursuant to the Declaration of Trust, the Trustee holds certain assets (the **Trust Assets**) consisting of:

- (a) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Lease Assets;
- (b) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given

to the Trustee by the Government and/or the Seller pursuant to any of the Transaction Documents);

- (c) all monies standing to the credit of the Transaction Account from time to time; and
- (d) all proceeds of the foregoing,

on trust absolutely for the holders of the Certificates *pro rata* according to the face amount of Certificates held by each holder in accordance with the Declaration of Trust and these Conditions.

The Purchase Agreement, the Lease Agreement, the Servicing Agency Agreement, the Purchase Undertaking, the Substitution and Transfer Undertaking, the Declaration of Trust and the Agency Agreement are together referred to in these Conditions as the **Transaction Documents**.

## 5.2 Application of Proceeds from Trust Assets

On each Periodic Distribution Date and on any Dissolution Date (as defined in Condition 9.1), the Principal Paying Agent shall apply the monies standing to the credit of the Transaction Account in the following order of priority:

- (a) *first*, to the Delegate in respect of all amounts owing to it under the Transaction Documents in its capacity as Delegate and/or any Appointee;
- (b) *second*, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts due and unpaid;
- (c) *third*, only if such payment is made on a Dissolution Date, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of the Dissolution Distribution Amount or amount payable on a Total Loss Event, as the case may be;
- (d) *fourth*, only if such payment is made on a Dissolution Date, to the Servicing Agent in or towards payment of all outstanding Servicing Agency Expenses (as defined in the Lease Agreement); and
- (e) *fifth*, only if such payment is made on a Dissolution Date, to the Issuer.

## 6. COVENANTS

The Issuer covenants that for so long as any Certificate is outstanding, it shall not (without the prior written consent of the Delegate and as provided in Condition 17):

- (a) incur any indebtedness in respect of borrowed money whatsoever (including by way of any analogous Islamic financing transaction), or give any guarantee or indemnity in respect of any obligation of any person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares) except, in all cases, as contemplated in the Transaction Documents;
- (b) grant or permit to be outstanding any lien, pledge, charge or other security interest upon any of its present or future assets, properties or revenues (other than those arising by operation of law);
- (c) sell, lease, transfer, assign, participate, exchange or otherwise dispose of, or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or

otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise) (or permit such to occur or suffer such to exist), any part of its interest in any of the Trust Assets except pursuant to the Transaction Documents;

- (d) use the proceeds of the issue of the Certificates for any purpose other than as stated in the Transaction Documents;
- (e) amend or agree to any amendment of any Transaction Document to which it is a party or its articles of association;
- (f) act as trustee in respect of any trust other than the Trust or in respect of any parties other than the Certificateholders;
- (g) have any subsidiaries or employees;
- (h) redeem or purchase any of its shares or pay any dividend or make any other distribution to its shareholders;
- (i) put to its directors or shareholders any resolution for, or appoint any liquidator for, its winding up or any resolution for the commencement of any other bankruptcy or insolvency proceeding with respect to it; and
- (j) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents to which it is a party or any permitted amendment or supplement thereto or as expressly permitted or required thereunder or engage in any business or activity other than:
  - (i) any such contract, transaction, amendment, obligation or liability in relation to its operations that is of a routine or administrative nature;
  - (ii) as provided for or permitted in the Transaction Documents;
  - (iii) the ownership, management and disposal of the Trust Assets as provided in the Transaction Documents; and
  - (iv) such other matters which are incidental thereto.

## **7. PERIODIC DISTRIBUTIONS**

### **7.1 Periodic Distribution Amounts and Periodic Distribution Dates**

Subject to Condition 5.2 and Condition 8, the Principal Paying Agent shall distribute to holders of the Certificates, *pro rata* to their respective holdings, out of amounts transferred to the Transaction Account, a distribution in relation to the Certificates representing a defined share of the Rental (as defined in the Lease Agreement) paid by the Lessee to the Lessor pursuant to the Lease Agreement in respect of the Lease Assets for the Certificates (the amount of such distribution, a **Periodic Distribution Amount**) on each Periodic Distribution Date at the rate of 6.75 per cent per annum (the **Periodic Distribution Rate**) of the face amount of the Certificates. For this purpose, **Periodic Distribution Date** means each of 3 June and 3 December in each year commencing on 3 June 2015 and, subject to Condition 7.3, ending on the Scheduled Dissolution Date (as defined below). For the avoidance of doubt, the Periodic Distribution Amount payable on each Periodic Distribution Date for USD 1,000 is USD 33.75.



7.2 **Calculation of Periodic Distribution Amounts payable other than on a Periodic Distribution Date**

If a Periodic Distribution Amount is required to be calculated in respect of a period of less than a full Return Accumulation Period (the **Relevant Period**), the Periodic Distribution Amount shall be calculated by applying the Periodic Distribution Rate to the face amount of the Certificates and multiplying such sum by the Day Count Fraction, and rounding the resultant figure to the nearest cent, half a cent being rounded upwards or otherwise in accordance with applicable market convention.

For these purposes, **Day Count Fraction** means, in respect of the calculation of a Periodic Distribution Amount in relation to the Certificates in accordance with this Condition 7.2, the number of days in the period from (and including) the most recent Periodic Distribution Date to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with twelve 30-day months) divided by 360.

The period from and including the Issue Date to but excluding the first Periodic Distribution Date and each successive period from and including a Periodic Distribution Date to but excluding the next succeeding Periodic Distribution Date is called a **Return Accumulation Period**.

7.3 **Cessation of Accrual**

No further amounts will be payable on any Certificate from and including its due date for redemption, unless default is made in payment of the Dissolution Distribution Amount in which case Periodic Distribution Amounts will continue to accrue in respect of the Certificates in the manner provided in this Condition 7, provided that no conveyance deed has been executed in accordance with the terms of the Purchase Undertaking.

8. **PAYMENT**

8.1 **Payments in respect of the Certificates**

Subject to Condition 8.2, payment of the Dissolution Distribution Amount and any Periodic Distribution Amount will be made by the Principal Paying Agent in U.S. dollars by wire transfer in same day funds to the registered account of each Certificateholder or by U.S. dollar cheque drawn on a bank that processes payments in U.S. dollars mailed to the registered address of the Certificateholder if it does not have a registered account. Payments of the Dissolution Distribution Amount will only be made against surrender of the relevant Certificate at the specified office of any of the Paying Agents. The Dissolution Distribution Amount and each Periodic Distribution Amount will be paid to the holder shown on the Register at the close of business on the date (the **record date**) being the seventh day before the date on which the Dissolution Distribution Amount or the relevant Periodic Distribution Amount, as the case may be, is paid.

*For so long as the Certificates are represented by Global Certificates deposited with a custodian for DTC or a common depositary for Euroclear or Clearstream, Luxembourg, payments of the Dissolution Distribution Amount and each Periodic Distribution Amount will be made to the person shown on the relevant Register as the registered Certificateholder represented by such Global Certificates at the close of business on the Clearing System Business Day before the due date for such payment (where **Clearing System Business Day** means a day on which the Clearing System with which a Global Certificate is being held is open for business).*

For the purposes of this Condition 8, a Certificateholder'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 at the close of business on the relevant record date, and a Certificateholder's **registered address** means its address appearing on the Register at that time.

## 8.2 **Payments subject to Applicable Laws**

Payments in respect of Certificates 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 10.

## 8.3 **Payment only on a Payment Business Day**

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 Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed, in each case by the Principal Paying Agent, on the due date for payment or, in the case of a payment of the Dissolution Distribution Amount, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of a Paying Agent for value as soon as practicable thereafter.

Certificateholders will not be entitled to any additional payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day, if the relevant Certificateholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition 8.3 arrives after the due date for payment.

If the amount of the Dissolution Distribution Amount or any Periodic Distribution Amount is not paid in full when due, the relevant Registrar will annotate the Register with a record of the amount in fact paid.

In these Conditions **Payment Business Day** means a day on which commercial banks and foreign exchange markets in London and New York City are open for general business and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

## 8.4 **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, with the prior written approval of the Delegate (which approval shall not be unreasonably withheld) to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that (a) it will at all times maintain a Principal Paying Agent and a Registrar (which may be the same entity) and (b) it will at all times maintain a Paying Agent (which may be the Principal Paying Agent) 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 Certificateholders by the Issuer in accordance with Condition 16 and the Declaration of Trust.

In acting under the Agency Agreement and in connection with the Certificates, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and the Delegate and do not assume any obligations towards or relationship of agency or trust for or with any of the Certificateholders.

## 9. CAPITAL DISTRIBUTIONS OF THE TRUST

### 9.1 Scheduled Dissolution

Unless the Certificates are previously redeemed or purchased and cancelled, the Issuer will redeem each Certificate at the Dissolution Distribution Amount on the Periodic Distribution Date falling on 3 December 2019 (the **Scheduled Dissolution Date**). Upon payment in full of the Dissolution Distribution Amount to the Certificateholders, the Trust will terminate, the Certificates shall cease to represent interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Issuer and the Trustee shall have no further obligations in respect thereof.

In these Conditions, **Dissolution Date** means any of the Scheduled Dissolution Date and any date specified by the Delegate in accordance with Condition 13 or Condition 9.3 and **Dissolution Distribution Amount** in relation to a Certificate means its outstanding face amount plus all accrued and unpaid Periodic Distribution Amounts in respect of such Certificate.

### 9.2 Dissolution Following a Dissolution Event

Upon the occurrence of a Dissolution Event (as defined in Condition 13) which is continuing, the Certificates may be redeemed at the Dissolution Distribution Amount and the Trust dissolved as more particularly specified in Condition 13.

### 9.3 Dissolution following a Total Loss Event

Upon the occurrence of a Total Loss Event and unless the Lease Assets are replaced as provided in the Servicing Agency Agreement by the 30th day after the occurrence of the Total Loss Event, subject to the Delegate having received the Insurance Coverage Amount and/or the Total Loss Shortfall Amount (as described below), the Certificates may be redeemed and the Trust dissolved on the 31st day after the occurrence of the Total Loss Event following notification thereof by the Delegate in accordance with Condition 16 (Notices). The Certificates will be redeemed at the Dissolution Distribution Amount using (i) the proceeds of insurance payable in respect of the Total Loss Event which (save where the Lease Assets are so replaced) are required to be paid into the Transaction Account by no later than the 30th day after the occurrence of the Total Loss Event and; (ii) if required, the Total Loss Shortfall Amount.

A **Total Loss Event** is the total loss or destruction of, or damage to the whole of, the Lease Assets or any event or occurrence that renders the whole of the Lease Assets permanently unfit for any economic use and (but only after taking into consideration any insurances or other indemnity granted by any third party in respect of the Lease Assets) the repair or remedial work in respect thereof is wholly uneconomical.

*The Servicing Agency Agreement provides that if the obligations of the Servicing Agent thereunder are not strictly complied with and as a result any insurance proceeds credited to the Transaction Account are less than the Insurance Coverage Amount (as defined therein), unless the Servicing Agent proves beyond reasonable doubt that (i) it has not breached, or for any reason failed to comply with, the relevant insurance related provisions of the Servicing Agency Agreement and (ii) that such shortfall is not in any way attributable to its negligence, the Servicing Agent shall be responsible for paying the Total Loss Shortfall Amount into the Transaction Account by no later than close of business on the 31st day after the Total Loss Event has occurred.*

#### 9.4 **No other Dissolution**

The Issuer shall not be entitled to redeem the Certificates, and the Trustee shall not be entitled to dissolve the Trust, otherwise than as provided in this Condition 9, Condition 12 and Condition 13.

#### 9.5 **Cancellations**

All Certificates which are redeemed will forthwith be cancelled and accordingly may not be held, reissued or resold.

### 10. **TAXATION**

All payments in respect of the Certificates shall be made without withholding or deduction for, or on account of, any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature (**Taxes**), imposed or levied by or on behalf of the Islamic Republic of Pakistan or any political sub-division or authority thereof or therein having power to tax (the **Relevant Jurisdiction**), unless the withholding or deduction of the Taxes is required by law. In such event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Certificateholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Certificates in the absence of the withholding or deduction, except that no such additional amount shall be payable in relation to any payment in respect of any Certificate:

- (a) presented for payment (where presentation is required) by or on behalf of a holder who is liable for such Taxes in respect of such Certificate by reason of having some connection with the Relevant Jurisdiction; or
- (b) presented for payment (where presentation is required) more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Payment Business Day; 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 Certificate to another Paying Agent in a Member State of the European Union.

In these Conditions, references to the **Dissolution Distribution Amount** or any **Periodic Distribution Amount** payable in respect of a Certificate shall be deemed to include any additional amounts payable under this Condition 10. In addition, in these Conditions **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 Principal Paying Agent or the Delegate 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 shall have been duly given to Certificateholders by the Issuer in accordance with Condition 16.

*The Lease Agreement and the Purchase Undertaking each provide that (a) payments thereunder by the Lessee and the Obligor, respectively, shall be made without withholding or deduction for, or on account of, any present or future Taxes, unless the withholding or*

*deduction of the Taxes is required by law and, in such case, provide for the payment by the Lessee and the Obligor, respectively, of additional amounts so that the full amount which would otherwise have been due and payable is received by the Issuer and (b) if the Issuer is required to make any payment under the Certificates after deduction or withholding for (i) any taxes or (ii) as otherwise required by applicable law, the Lessee will pay to the Lessor on demand an additional amount of Rental to enable the Issuer to pay such additional amounts to the Certificateholders so that the net amount received by the Certificateholders will equal the full amount which would have been receivable by the Certificateholders had no such deduction or withholding been made.*

## **11. PRESCRIPTION**

The right to receive distributions in respect of the Certificates will be forfeited unless claimed within periods of ten years (in the case of the Dissolution Distribution Amount) and five years (in the case of Periodic Distribution Amounts) from the Relevant Date in respect thereof, subject to the provisions of Condition 8.

## **12. PURCHASE OF CERTIFICATES**

### **12.1 Purchases**

The Issuer or the Government (itself or acting through an agent) may at any time purchase Certificates in any manner and at any price. Such Certificates may, at the option of the Issuer or the Government, as the case may be, be held, resold or surrendered to the Principal Paying Agent for cancellation. Any Certificates so surrendered will forthwith be cancelled and accordingly may not be reissued or resold.

### **12.2 Transfer of Lease Assets**

Following any purchase of Certificates by or on behalf of the Government pursuant to Condition 12.1, the Government may oblige the Trustee pursuant to the Substitution and Transfer Undertaking to transfer specified Lease Assets to or to the order of the Government (the **Cancellation Lease Assets**) against the delivery of the Certificates so purchased to the Principal Paying Agent for cancellation (the **Cancellation Certificates**), provided that the aggregate value (as determined by reference to the relevant internal government valuation of the Cancellation Lease Assets on the date on which the Cancellation Lease Assets were acquired by the Trustee) of the Cancellation Lease Assets (the identity of which may otherwise be determined by the Government in its sole and absolute discretion) is not greater than the aggregate face amount of the Cancellation Certificates.

## **13. DISSOLUTION EVENTS**

Upon the occurrence and continuation of any of the following events (**Dissolution Events**):

- (a) a default is made in the payment of any Periodic Distribution Amount or the Dissolution Distribution Amount and such default is not cured within 30 days of the due date for payment;
- (b) the failure by the Issuer or the Trustee to observe or perform any other provision of these Conditions or the Declaration of Trust if, where it is not clearly impossible to remedy such failure, it is not remedied within sixty (60) calendar days following delivery to the Government of written notice from the Delegate to remedy such;
- (c) a Government Event (as defined in the Purchase Undertaking) occurs;

- (d) (i) the Issuer becomes insolvent or is unable to pay its debts as they fall due, or (ii) an administrator, receiver, liquidator or similar official of the Issuer is appointed (or application for any such appointment is made) with respect to the whole or a substantial part of the undertaking, assets and revenues of the Issuer, or (iii) the Issuer takes any action for a general readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness or any guarantee of any indebtedness given by it, (iv) the Issuer ceases or threatens to cease to carry on all or a substantial part of its business (otherwise than for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or
- (e) an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer,

the Delegate shall promptly, following it becoming aware thereof, give notice of the occurrence of such Dissolution Event to the holders of Certificates in accordance with Condition 16 with a request to such holders to indicate if they wish the Certificates to be redeemed and the Trust to be dissolved; provided, however, that in the case of an event described in paragraph (b) above and paragraph (b) of the definition of Government Event, such notice may only be given if the Delegate is of the opinion that the event is materially prejudicial to the interests of the Certificateholders. If so directed or requested to do so in writing by the holders of, not less than 25 per cent of the aggregate face amount of the Certificates then outstanding (each a **Dissolution Notice**), the Delegate shall (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction) give notice to the Issuer, the Trustee, the Government and all the holders of the Certificates in accordance with Condition 16 that the Certificates are to be redeemed in full at the Dissolution Distribution Amount on the date specified in such notice. Upon payment in full of such amounts, the Trust will terminate, the Certificates shall cease to represent the Trust Assets and no further amounts shall be payable in respect thereof and the Issuer and the Trustee shall have no further obligations in respect thereof.

*As set out in the Purchase Undertaking, each of the following events or circumstances shall constitute a **Government Event**:*

- (a) *the failure to pay on the due date (i) any Exercise Price payable by the Government pursuant to the Purchase Undertaking, or the Total Loss Shortfall Amount payable by the Government pursuant to the Servicing Agency Agreement; or (ii) any Rental due by the Government under the Lease Agreement (including payment of any additional amount of Rental pursuant to the Lease Agreement in respect of any additional amounts payable by the Issuer under Condition 10) and such failure to pay such Rental or additional amount is not cured within 30 days of the due date for payment;*
- (b) *the Government does not perform or comply with any one or more of its other obligations under the Transaction Documents, which is incapable of remedy or is not remedied within 30 days following the service by the Delegate on the Government of notice requiring the same to be remedied;*
- (c) (i) *the acceleration of the maturity (other than by optional or mandatory prepayment or redemption) of any External Indebtedness (as defined below) of the Government; 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 Government 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 Government 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;*

- (d) a moratorium on the payment of principal of, or interest on, the External Indebtedness of the Government shall be declared by the Government;*
- (e) the Government 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;*
- (f) (i) the validity of its obligations under the Transaction Documents shall be contested by the Government; or*
  - (ii) the Government shall deny any of its obligations under the Transaction Documents (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 Government to perform or comply with all or any of its obligations under the Transaction Documents, including, without limitation, its payment obligations thereunder, 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;*
- (g) any regulation, decree, consent, approval, licence or other authority necessary to enable the Government to make or perform its obligations under the Transaction Documents, 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 Trustee or the Certificateholders;*
- (h) the Government 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 defined below) 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;*
- (i) at any time it becomes unlawful for the Government to perform or comply with any of its payment obligations under the Lease Agreement, the Purchase Undertaking or the Servicing Agency Agreement or any of the payment obligations of the Government under the Lease Agreement, the Purchase Undertaking or the Servicing Agency Agreement ceases to be legal, valid, binding and enforceable on it; or*
- (j) the Lessee has disposed of the whole of its leasehold interest under the Lease Agreement; or*
- (k) the Lessee rejects any Rental Notice.*

*In these conditions and in the definition of Government Event set out above:*

**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.

#### **14. ENFORCEMENT AND EXERCISE OF RIGHTS**

- 14.1 Following the distribution in full of the proceeds of the Trust Assets in respect of the Certificates to the Certificateholders in accordance with these Conditions and the Declaration of Trust, neither the Trustee nor the Issuer shall be liable for any further sums and, accordingly, Certificateholders may not take any action against the Issuer or the Trustee or any other person to recover any such sum in respect of the Certificates or Trust Assets.
- 14.2 The Delegate shall not be bound in any circumstances to take any action to enforce or to realise the Trust Assets or take any action, step or proceedings against the Issuer, the Trustee and/or the Government under any Transaction Document unless directed or requested to do so by a Dissolution Notice and only then if it shall be indemnified and/or secured and/or prefunded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing.
- 14.3 No Certificateholder shall be entitled to proceed directly against the Issuer, the Trustee or the Government unless the Delegate, having become bound so to proceed, fails to do so within a reasonable period of becoming so bound and such failure is continuing. The Delegate and the Certificateholders shall only be entitled to deal with the Trust Assets as expressly permitted by the Transaction Documents and the sole right of the Trustee, the Delegate and the Certificateholders against the Trustee, the Issuer or the Government shall be to enforce their respective obligations under the Transaction Documents to which they are a party.
- 14.4 The foregoing paragraphs in this Condition are subject to this paragraph. After enforcing or realising the Trust Assets and distributing the proceeds of the Trust Assets in accordance with Condition 5.2 and the Declaration of Trust, the obligations of the Issuer and the Trustee in respect of the Certificates shall be satisfied and no Certificateholders may take any further steps against the Issuer, the Trustee, the Delegate or any other person to recover any further sums in respect of the Certificates and the right to receive any sums unpaid shall be extinguished.

#### **15. REPLACEMENT OF CERTIFICATES**

Should any Certificate be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the relevant 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 or the Government may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

#### **16. NOTICES**

- (a) So long as all the Regulation S Certificates are represented by a Regulation S Global Certificate and such Regulation S Global Certificate is held on behalf of Euroclear or



Clearstream, Luxembourg, notices to holders of Regulation S Certificates may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by it to entitled holders of Regulation S Certificates in substitution for notification by delivery of the relevant notice to the relevant Certificateholders, subject to the additional requirement to publish notices in accordance with the rules of a stock exchange, set out in paragraph (c) below. Any such notice shall be deemed to have been given to the holders of Regulation S Certificates on the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg as aforesaid.

- (b) So long as all the Rule 144A Certificates are represented by a Rule 144A Global Certificate and such Rule 144A Global Certificate is held on behalf of DTC, notices to holders of Rule 144A Certificates may be given by delivery of the relevant notice to DTC for communication by it to entitled holders of Rule 144A Certificates in substitution for notification by delivery of the relevant notice to the relevant Certificateholders, subject to the additional requirement to publish notices in accordance with the rules of a stock exchange, set out in paragraph (c) below. Any such notice shall be deemed to have been given to the Certificateholders on the day on which such notice is delivered to DTC as aforesaid.
- (c) All notices to Certificateholders will be valid if mailed to them at their respective addresses in the register of Certificateholders maintained by the Registrars. In addition to any notice given in accordance with the methods set out in paragraphs (a) and (b) above, so long as the Certificates 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 and the Government will, regardless if notice has already been given in accordance with paragraph (a) or (b) above, also publish notices to the holders of the Certificates in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) and in a daily newspaper of international circulation including Luxembourg (which is expected to be the *Financial Times*) and/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.

## **17. MEETINGS OF CERTIFICATEHOLDERS, MODIFICATION, WAIVER, AUTHORISATION AND DETERMINATION**

### **17.1 Meetings of Certificateholders**

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 of the aggregate face amount of the Certificates for the time being outstanding, or at any adjourned such meeting one or more persons present whatever the face amount of the Certificates held or represented by him or them, except that, at any meeting at which is to be proposed an Extraordinary Resolution for the purpose of:

- (a) modifying the Scheduled Dissolution Date or any other date for payment in respect of the Certificates;
- (b) reducing or cancelling any amount payable in respect of the Certificates;
- (c) altering the currency of payment of the Certificates; and

- (d) modifying the provisions contained in the Declaration of Trust concerning the quorum required at any meeting of the Certificateholders or the majority required to pass an Extraordinary Resolution;
- (e) alteration of this proviso,

(each a “**Reserved Matter**”)

the necessary quorum will be one or more persons present holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the aggregate face amount of the Certificates for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Certificateholders will be binding on all Certificateholders, whether or not they are present at the meeting and whether or not voting.

- 17.2 In addition, consent given by way of (i) an electronic consent through the relevant clearing system in accordance with the Declaration of Trust; or (ii) a signed written resolution, in each case, by or on behalf of Certificateholders of at least 90 per cent in aggregate face amount of Certificates for the time being outstanding 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 Certificateholders and will be binding on all Certificateholders. Extraordinary Resolution is defined in the Declaration of Trust as a resolution duly passed by not less than 90 per cent of the votes cast.

### 17.3 **Modification**

The Delegate may agree, without the consent or sanction of the Certificateholders, to any modification or to the waiver or authorisation of any breach or proposed breach of any of these Conditions or any of the provisions of the Declaration of Trust or any other Transaction Documents 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; (ii) for the purpose of making a modification which is formal, minor, or technical in nature; or (iii) in any other manner which is, in the sole opinion of the Delegate, not materially prejudicial to the interests of the Certificateholders. Any modification shall be binding on the Certificateholders and, unless the Delegate agrees otherwise, any modification shall be notified by the Trustee to the Certificateholders as soon as practicable thereafter in accordance with Condition 16.

- 17.4 In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Trustee and the Delegate shall have regard to the general interests of the Certificateholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Certificateholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Certificateholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof) and neither the Trustee nor the Delegate shall be entitled to require, nor shall any Certificateholder be entitled to claim, from the Issuer, the Trustee, the Government, the Delegate or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Certificateholders.

- 17.5 Any modification, abrogation, waiver, authorisation or determination shall be binding on all the Certificateholders and, unless the Delegate agrees otherwise, shall be notified by the Issuer to the Certificateholders as soon as practicable thereafter in accordance with Condition 16.

## **18. INDEMNIFICATION AND LIABILITY OF THE DELEGATE AND THE TRUSTEE**

- 18.1 The Declaration of Trust contains provisions for the indemnification of the Delegate in certain circumstances and for its relief from responsibility, including provisions relieving it from taking any action, step or proceeding unless indemnified and/or secured and/or prefunded to its satisfaction.
- 18.2 The Delegate makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of the Government under the Transaction Documents and shall not under any circumstances have any liability or be obliged to account to the Certificateholders in respect of any payments which should have been made by the Government but are not so paid and shall not in any circumstances have any liability arising from the Trust Assets other than as expressly provided in the Conditions or in the Declaration of Trust.
- 18.3 Each of the Trustee and the Delegate is exempted from (i) any liability in respect of any loss or theft of the Trust Assets or any cash, (ii) any obligation to insure the Trust Assets or any cash and (iii) any claim arising from the fact that the Trust Assets or any cash are held by or on behalf of the Trustee or on deposit or in an account with any depositary or clearing system or are registered in the name of the Trustee or its nominee, unless such loss or theft arises as a result of wilful default or fraud by the Trustee or the Delegate, as the case may be.

## **19. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

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

## **20. GOVERNING LAW AND JURISDICTION**

### **20.1 Governing Law**

The Declaration of Trust, Agency Agreement and the Certificates (including any non-contractual obligations arising out of or in connection with the Declaration of Trust, Agency Agreement and the Certificates) are governed by, and will be construed in accordance with, English law.

### **20.2 Jurisdiction**

- (a) The Delegate, the Trustee and the Government have agreed that the courts of England or the courts of Pakistan (the **Specified Courts**), at the option of the Delegate, are to have jurisdiction to settle any dispute, claim, difference or controversy arising out of or in connection with the Certificates (including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with them) (a **Dispute**) and accordingly any legal action or proceedings arising out of or in connection with the Certificates (**Proceedings**) may be brought in such courts. Each of the Trustee and the Government irrevocably submit to the jurisdiction of the Specified Courts and waive any objection to Proceedings in the Specified Courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This Condition 20.2 is for the benefit of the Delegate for and on behalf of the Certificateholders only. As a result, the Delegate shall not limit the Delegate's rights to take Proceedings in any other court (the **Other Courts**) of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

- (b) The Issuer irrevocably appoints the High Commission for Pakistan in London presently located at 34-36 Lowndes Square, London SW1X 9JN to receive, for it and on its behalf, service of process in respect of any Proceedings in England. Such service shall be deemed completed on delivery to such process agent (whether or not it is forwarded to and received by the Issuer). If for any reason such process agent ceases to be able to act as such or no longer has an address in England, the Issuer irrevocably agrees to appoint a substitute process agent. Nothing in these Conditions shall affect the right to serve Proceedings in any other manner permitted by law.

*The Government has agreed in the Transaction Documents to which it is a party that to the extent that the Government or any of its revenues, assets or properties are entitled, in any jurisdiction in which any Specified Court is located, in which any Proceedings 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 Government irrevocably agrees not to claim and irrevocably waives such immunity to the fullest extent permitted by the laws of such jurisdiction (and 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 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 the Issuer to enforce a related judgment. The waiver of immunities referred to herein constitutes only a limited and specific waiver for purposes of these Conditions and under no circumstances shall it be interpreted as a general waiver by the Government or a waiver with respect to proceedings unrelated to these Conditions. The Government has not waived such immunity in respect of property which is (i) used by a diplomatic or consular mission of the Government (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).*

### 20.3 **Waiver of Interest**

Each of the Issuer, the Trustee, the Government and the Delegate has irrevocably agreed in the Declaration of Trust that if any proceedings are brought by or on behalf of a party under the Declaration of Trust and in respect of the Certificates it will:

- (a) not claim any judgment interest under, or in connection with, such proceedings; and
- (b) to the fullest extent permitted by law, waive all and any entitlement it may have to judgment interest awarded in its favour as a result of such proceedings.

For the avoidance of doubt, nothing in this Condition 20.3 shall be construed as a waiver of rights in respect of any Rental, the Exercise Price, Periodic Distribution Amounts, the Dissolution Distribution Amounts or any other amounts payable by the Government (in any capacity) or the Trustee (in any capacity) pursuant to the Transaction Documents and/or the Conditions, howsoever such amounts may be described or recharacterised by any court.

## GLOBAL CERTIFICATES

*Each Global Certificate contains provisions which apply to the Certificates in respect of which it is issued whilst they are represented by the relevant Global Certificate, some of which modify the effect of the Conditions. The following is a summary of those provisions. Unless otherwise defined, terms defined in the Conditions have the same meaning in paragraphs 1 to 8 below.*

### 1. Form of the Certificates

The Certificates sold to non-U.S. persons in offshore transactions in reliance on Regulation S (the **Regulation S Certificates**) will be represented by one or more global Regulation S certificates in fully registered form (each a **Regulation S Global Certificate**), which will be deposited with a common depositary for, and will be registered in the name of a nominee of Euroclear and Clearstream, Luxembourg. Beneficial interests in the Regulation S Global Certificates may only be offered or sold to non-U.S. persons in offshore transactions in reliance on Regulation S and may not be held otherwise than through Euroclear or Clearstream, Luxembourg. Such Regulation S Certificate will bear a legend regarding such restrictions on transfer. See *“Clearance and Settlement—Payments and relationship of participants with clearing systems”*.

The Certificates sold within the United States to QIBs who are also QPs in reliance on Rule 144A (the **Rule 144A Certificates**) will be represented by one or more global Rule 144A certificates in fully registered form (each a **Rule 144A Global Certificate**), which will be deposited with a custodian for and will be registered in the name of a nominee of DTC. Beneficial interests in the Rule 144A Global Certificates may only be held through DTC and its direct or indirect participants including Euroclear and Clearstream, Luxembourg at any time. See *“Clearance and Settlement—Payments and relationship of participants with clearing systems”*. Subject to certain exceptions, beneficial interests in the Rule 144A Global Certificates may only be held by persons who are QIBs that are QPs, holding their interests for their own account or for the account of one or more QIBs each of which is a QP. By acquisition of a beneficial interest in a Rule 144A Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and a QP 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 the Rule 144A Global Certificates. See *“Transfer Restrictions”*.

The Regulation S Global Certificates and the Rule 144A Global Certificates are referred to herein as the **Global Certificates**. Beneficial interests in the Regulation S Global Certificates and the Rule 144A Global Certificates will be subject to certain restrictions on transfer set out in the Global Certificates and in the Agency Agreement and such Global Certificates will bear a legend as set out under *“Transfer Restrictions”*. Investors may hold interests in the Regulation S Global Certificates through Euroclear or Clearstream, Luxembourg if they are participants in those systems. Investors may also hold such interests through organisations other than Euroclear and Clearstream, Luxembourg that are participants in the Euroclear and Clearstream, Luxembourg systems. Investors may hold their interests in the Rule 144A Global Certificates directly through DTC, if they are DTC participants, or indirectly through organisations which are DTC participants.

No beneficial interest in the Regulation S Global Certificates may be transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A Global Certificates unless (i) the transfer is to a person reasonably believed to be a QIB and a QP, (ii) such transfer is made in reliance on Rule 144A, and (iii) the transferor provides the Registrars 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 both a QIB and a QP purchasing

the beneficial interest for its own account or any account of a QIB who is also a QP, in each case, 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 the Rule 144A Global Certificates may be transferred to a person who takes delivery in the form of a beneficial interest in the Regulation S Global Certificates unless (i) the transfer is being made to a non-U.S. person in an offshore transaction in reliance on Rule 903 or Rule 904 of Regulation S, and (ii) the transferor provides the Registrars with a written certification substantially in the form set out in the Agency Agreement to the effect that the transfer is being made to a non-U.S. person in an offshore transaction in accordance with Regulation S.

Any beneficial interest in the Regulation S Global Certificates that is transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A Global Certificates will, upon transfer, cease to be an interest in the Regulation S Global Certificate and become an interest in the Rule 144A Global Certificates, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Certificates for as long as it remains such an interest. Any beneficial interest in the Rule 144A Global Certificates that is transferred to a person who takes delivery in the form of a beneficial interest in the Regulation S Global Certificates will, upon transfer, cease to be an interest in the Rule 144A Global Certificates and become an interest in the Regulation S Global Certificates and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to Regulation S Global Certificates for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Certificates, but the Trustee may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Upon receipt of the Global Certificates, the relevant clearing system or the custodian or common depository will credit, on its internal system, the respective face amount of the individual beneficial interests represented by each such Global Certificate to the accounts of persons who have accounts with such clearing system. Ownership of beneficial interests in Global Certificates will be limited to persons who have accounts with the relevant clearing system or persons who hold interests through direct or indirect participants. Ownership of beneficial interests in the Global Certificates will be shown on, and the transfer of that ownership will be effected only through, records maintained by Euroclear, Clearstream Luxembourg and/or DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants).

Except in the limited circumstances described below, owners of beneficial interests in Global Certificates will not be entitled to receive physical delivery of certificated Certificates.

## 2. **Holders**

For so long as all of the Certificates are represented by Global Certificates and each Global Certificate is held on behalf of DTC, Euroclear and/or Clearstream Luxembourg or their respective nominees, each person (other than another clearing system) who has for the time being a particular aggregate face amount of such Certificates credited to his securities account in the records of Euroclear Clearstream, Luxembourg or, as the case may be DTC or its nominee (each, a **Certificateholder**) (in which regard any certificate or other document issued by such clearing system as to the aggregate face amount of such Certificates standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated as the holder of such aggregate face amount of such Certificates (and the expression **Certificateholders** and references to **holding of Certificates** and to **holder of Certificates** shall be construed accordingly) for all purposes other than with respect to payments and/or deliveries on such Certificates, for which purpose the registered holder of the relevant Global Certificate shall be deemed to be the holder of such face amount

of Certificates in accordance with and subject to its terms and the Declaration of Trust. Each Certificateholder must look solely to the relevant Clearing System or its nominee, for its share of each payment made to the registered holder of the relevant Global Certificate.

3. **Cancellation**

Cancellation of any Certificate represented by a Global Certificate will be effected by reduction in the aggregate face amount of the Certificates in the Register and by annotation of the appropriate schedule to the relevant Global Certificate, subject to the rules and procedures of the relevant clearing system.

4. **Payments**

Payments of any Dissolution Distribution Amount and Periodic Distribution Amount in respect of Certificates represented by a Global Certificate will be made upon presentation or, if no further payment falls to be made in respect of the Certificates against presentation and last dissolution, surrender of the relevant Global Certificate at the specified office of the Principal Paying Agent or to the order of the relevant Registrar at such office specified by the relevant Registrar, all subject to and in accordance with the Conditions and the Declaration of Trust.

Distributions of amounts with respect to book-entry interests in the Certificates held through DTC, Euroclear and/or Clearstream Luxembourg or their respective nominees will be credited to the cash accounts of participants in the relevant clearing system in accordance with the relevant clearing system's rules and procedures.

A record of each payment made in respect of the Certificates will be entered into the Register by or on behalf of the relevant Registrar and shall be *prima facie* evidence that payment has been made.

5. **Notices**

So long as all the Certificates are represented by any of the Global Certificates and each Global Certificate is held on behalf of DTC, Euroclear and/or Clearstream, Luxembourg or their respective nominees, notices to Certificateholders may be given by delivery of the relevant notice to the relevant clearing systems for communication to entitled holders in accordance with the Conditions except that, so long as the Certificates are listed on any stock exchange, notices shall also be published in accordance with the rules of such stock exchange. Any such notice shall be deemed to have been given to the Certificateholders on the day on which such notice is delivered to the relevant clearing systems.

6. **Registration of Title**

The Registrars will not register title to the Certificates in a name other than that of a nominee for the relevant clearing system for a period of seven calendar days preceding the due date for any payment of any Periodic Distribution Amount or the Dissolution Distribution Amount in respect of the Certificates.

7. **Transfers**

Transfers of book-entry interests in the Certificates will be effected through the records of Euroclear, Clearstream, Luxembourg and/or DTC and their respective direct and indirect participants in accordance with their respective rules and procedures.

## 8. **Exchange for Definitive Certificates**

### *Exchange*

The Rule 144A Global Certificates will be exchangeable, free of charge to the holder, in whole but not in part, for Certificates in definitive form (the **Rule 144A Definitive Certificates**) and the Regulation S Global Certificates will be exchangeable, free of charge to the holder, in whole but not in part, for Certificates in definitive form (the **Regulation S Definitive Certificates** and, together with the Rule 144A Definitive Certificates, the **Definitive Certificates**) upon the occurrence of an Exchange Event.

For these purposes, **Exchange Event** means that (i) in the case of the Global Certificates registered in the name of a nominee for DTC, if DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depository with respect to the Global Certificates or DTC ceases to be a “clearing agency” registered under the Exchange Act or is at any time no longer eligible to act as such and the Issuer is not able to locate a qualified successor within 90 days of receipt of such notice from DTC or (ii) in the case of the Global Certificates registered in the name of a nominee for a common depository for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available.

In exchange for the relevant Global Certificate, as provided in the Agency Agreement, the relevant Registrar will deliver or procure the delivery of an equal aggregate face amount of duly executed Definitive Certificates in or substantially in the form set out in the Declaration of Trust.

### *Delivery*

In such circumstances, the relevant Global Certificate shall be exchanged in full for Definitive Certificates and the Issuer will, at the cost of the Issuer (but against such indemnity as the relevant Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Certificates to be executed and delivered to the relevant Registrar for completion, authentication and dispatch to the relevant Certificateholders. A person having an interest in a Global Certificate must provide the relevant Registrar with (i) a written order containing instructions and such other information as the Issuer and the relevant Registrar may require to complete, execute and deliver such Definitive Certificates and (ii) in the case of the Rule 144A Global Certificates 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 written 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 and a QP purchasing the beneficial interest for its own account or any account of a QIB who is also a QP, in each case, 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. Definitive Certificates issued in exchange for a beneficial interest in the Rule 144A Global Certificates shall bear the legends applicable to transfers pursuant to Rule 144A and Rule 3(c)(7) under the Investment Company Act, as set out under “*Transfer Restrictions*”.



### *Legends and transfers*

The holder of a Definitive Certificate may transfer the Certificates represented thereby in whole or in part in the applicable Authorised Denomination by surrendering it at the specified office of the relevant Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Definitive Certificate bearing the legend referred to under “*Transfer Restrictions*”, or upon specific request for removal of the legend on a Definitive Certificate, the Issuer will deliver only Definitive 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 relevant 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 and the Investment Company Act. Rule 144A Definitive Certificates will bear the same legend as the legend for the Rule 144A Global Certificates set out under “*Transfer Restrictions*”. The Rule 144A Definitive Certificates may not at any time be held by or on behalf of U.S. persons (as defined in Regulation S) that are not QIBs who are also QPs. Before any Regulation S Definitive Certificate may be resold or otherwise transferred to a person who takes delivery in the form of a Rule 144A Definitive Certificate, the transferor and/or transferee, as applicable, will be required to provide the Registrars 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 a QP purchasing the beneficial interest for its own account or any account of a QIB who is also a QP and (ii) in each case in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of United States or any other jurisdiction. Regulation S Definitive Certificate will bear the same legend as the legend for the Regulation S Global Certificates set out under “*Transfer Restrictions*”. Before any Rule 144A Definitive Certificate may be resold or otherwise transferred to a person who takes delivery in the form of a Regulation S Definitive Certificate, the transferor and/or transferee, as applicable, will be required to provide the Registrars with a written certification substantially in the form set out in the Agency Agreement to the effect that the transfer is being made to a person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S.

## DESCRIPTION OF THE ISSUER

### History

The Second Pakistan International Sukuk Company Limited (the **Issuer**) a public limited liability company incorporated in Pakistan on 3 October 2014 under the Companies Ordinance, 1984 (Ordinance No. XLVII of 1984) having its registered office at Room No. 208, Q-Block, Finance Division, Pakistan Secretariat, Islamabad, Pakistan. The Issuer is registered pursuant to the Certificate of Incorporation issued with Corporate Universal Identification No. 0090157. Pursuant to Article III of the Issuer's memorandum of association (the **Issuer Memorandum**), the Issuer has been formed solely for the purpose of participating in the transactions contemplated by the Transaction Documents. The Issuer is constituted pursuant to its articles of association (the **Issuer Articles** and together with the Issuer Memorandum, the **Issuer Constitutional Documents**). The Issuer Articles provide that the Issuer's power to borrow and issue securities is exercised by its directors.

The Issuer is wholly owned by the Government. The Issuer has an authorised share capital of Rupees 1,000,000 (one million), divided into 100,000 (one hundred thousand) ordinary shares of Rupees 10 (ten) each with powers to increase and reduce the capital of the Issuer and to divide the shares in the capital for the time being into several classes in accordance with the provisions of the Companies Ordinance, 1984. The issued share capital of the Issuer is Rupees 100,000 (one hundred thousand), divided into 10,000 (ten thousand) ordinary shares of Rupees 10 (ten) each, which are all fully paid.

### Business Activity

Since its establishment, the Issuer has not engaged in any material activities other than those regarding or incidental to the issue of the Certificates and the matters contemplated in this offering circular and the Transaction Documents and the authorisation of its entry into the other transactions and documents referred to in this offering circular to which it is or will be a party.

The Issuer has no prior operating history or prior business and will not have any substantial liabilities other than in connection with the issue of the Certificate. The Issuer has no subsidiaries and no employees.

### Board and Management

The management of the Issuer is vested in the board of directors, which comprises:

Mr. Shahid Mahmood, Additional Secretary External Finance, Finance Division, Islamabad	Director/Chief Executive Officer
Mr. Naveed Alauddin, Joint Secretary External Finance, Finance Division, Islamabad	Director
Mr. Amjad Mahmood, Joint Secretary External Finance, Finance Division, Islamabad	Director

The business address of each of the directors is Q-Block, Finance Division, Pakistan Secretariat, Islamabad, Pakistan. The Issuer has no employees and will have no employees as at the Issue Date.

### Financial Statements

Since the date of its incorporation, no financial statements of the Issuer have been prepared. The fiscal year of the Issuer will end on 30 June of each year, with the first fiscal year covering the period from 3 October 2014 to 30 June 2015. The Issuer will prepare and file its annual audited accounts with the Registrar of Companies, Islamabad but is not required to, and does intend to, publish annual audited accounts. The Issuer will not prepare any interim accounts.

As at the date of this offering circular, the Issuer does not have any indebtedness, bank overdrafts, borrowings, guarantees or contingent liabilities. A balance sheet on 21 November 2014 is set out below.

<b>Assets</b>	
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Cash	Rupees 100,000
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<b>Shareholders' Equity</b>	
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Share Capital	Rupees 100,000
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## SUMMARY OF THE PRINCIPAL TRANSACTION DOCUMENTS

*The following is a summary of certain provisions of the principal Transaction Documents and is qualified in its entirety by reference to the detailed provisions of the principal Transaction Documents. Copies of the Transaction Documents will be available for inspection and/or collection at the offices of the Principal Paying Agent (as defined in the Conditions).*

### **Purchase Agreement**

The Purchase Agreement will be entered into on or about 1 December 2014 between the Trustee (in its capacity as Purchaser) and Pakistan International Sukuk Company Limited (in its capacity as Seller) and will be governed by the laws of Pakistan.

Pursuant to the Purchase Agreement, the Seller will sell, transfer and convey to the Purchaser, and the Purchaser will purchase from the Seller, and accept the transfer and conveyance of, on the date of the Purchase Agreement, the Assets (as defined in “*Structure Diagram and Cash Flows – Principal Cash Flows*”) for the Purchase Price (as defined in the Purchase Agreement), which shall be payable on the Issue Date, free and clear of all encumbrances or any other rights of third parties.

### **Lease Agreement**

The Lease Agreement will be entered into on or about 1 December 2014 between the Government (in its capacity as Lessee), the Trustee (in its capacity as Lessor) and the Delegate and will be governed by the laws of Pakistan.

Under the terms of the Lease Agreement, the Lessor will lease to the Lessee, and the Lessee will lease from the Lessor, the Assets purchased pursuant to the Purchase Agreement (the **Lease Assets**) on the basis of consecutive six-month rental periods for a cumulative period commencing on the Issue Date and extending to the Scheduled Dissolution Date unless (i) the Lease is terminated on an earlier date (as a result of the occurrence of a Dissolution Event or Total Loss Event) or (ii) the Lease is extended in accordance with the Purchase Undertaking where the Government (in its capacity as Obligor) fails to pay all or part of the Exercise Price when due (See “*Summary of the Principal Transaction Documents – Purchase Undertaking*”), in which case it shall mean the last day of the Additional Lease Period (as defined in the Purchase Undertaking) (the **Lease Term**).

The Lessee will agree to use the Lease Assets at its own risk. Accordingly, the Lessee shall bear the entire risk of loss of or damage to the Lease Assets or any part thereof arising from the negligent usage or operation thereof by the Lessee. In addition, the Lessor shall not be liable (and the Lessee will waive any claim or right, howsoever arising, to the contrary) for any indirect, consequential or other losses, howsoever arising, in connection with the Lessee’s negligent use or operation of the Lease Assets.

The Lessee shall, at its own cost and expense, be responsible for the performance of all Ordinary Maintenance and Repair (as defined in the Lease Agreement) required for the Lease Assets.

The Lessor shall be responsible for (i) the performance of all Major Maintenance and Structural Repair (as defined in the Lease Agreement), (ii) the payment of any proprietorship or other relevant taxes and levies, and (iii) insuring the Lease Assets, and the Lessee will acknowledge that the Lessor may procure that the Servicing Agent, in accordance with the terms and conditions set out in the Servicing Agency Agreement, shall perform, or shall procure the performance of, the Major Maintenance and Structural Repair on behalf of the Lessor, the payment of such taxes and levies and the insurance of the Lease Assets.

All payments by the Lessee to the Lessor under the Lease Agreement shall be paid in full without any deduction or withholding for or on account of any tax unless required by law and without set-off (save in respect of the set-off of any Servicing Agency Expenses (as defined in the Servicing Agency

Agreement) against the payment of any Supplementary Rental (as defined in the Lease Agreement) as provided in the Servicing Agency Agreement) or counterclaim of any kind and, in the event that there is any deduction or withholding for or on account of tax, the Lessee shall pay all additional amounts as will result in the receipt by the Lessor of such net amounts as would have been received by it if no deduction or withholding had been made. The payment obligations of the Lessee under the Lease Agreement will be direct, unconditional, unsubordinated and unsecured obligations of the Lessee and (save for such mandatory exceptions as may be provided by applicable legislation and regulations) shall at all times rank at least *pari passu* with all other direct, unsecured, unsubordinated and unconditional obligations of the Lessee.

The rental payable under the Lease Agreement will be used for the payment of the Periodic Distribution Amounts payable on the Periodic Distribution Dates. The Lessee will be obligated to pay such rentals on each Rental Payment Date or any earlier date on which the lease of the Lease Assets is terminated in accordance with the terms of the Lease Agreement.

The Lease Agreement provides that it shall automatically terminate, but without prejudice to any right or remedy the Lessor may have under any Transaction Document or by law, if a Total Loss Event occurs and (unless the Lease Assets are replaced as provided in the Servicing Agency Agreement by no later than the 30th day after the occurrence of the Total Loss Event) the Lessor will be entitled to any insurance proceeds payable as a result of the Total Loss Event. The Lease Agreement may not otherwise be terminated prior to the expiry of the Lease Term unless the Certificates have been redeemed in full and all the parties to the Lease Agreement agree that it shall be so terminated.

#### **The Declaration of Trust**

The Declaration of Trust will be entered into on or about 1 December 2014 between the Government, the Issuer, the Trustee and the Delegate and will be governed by English law.

Pursuant to the Declaration of Trust, the Trustee will declare the Trust for the benefit of the Certificateholders over all of its rights, title, interest and benefit, present and future, in, to and under the Lease Assets and the Transaction Documents (other than in relation to any representations given to the Trustee by the Government and/or the Seller pursuant to any of the Transaction Documents), all monies standing to the credit of the Transaction Account from time to time and all proceeds of the foregoing (**Trust Assets**).

Pursuant to the Declaration of Trust, the Trustee will, in relation to the Certificates, *inter alia*:

- (a) hold the Trust Assets on trust absolutely for the Certificateholders as owners and beneficiaries *pro rata* according to the face amount of Certificates held by each Certificateholder; and
- (b) act as trustee in respect of the Trust Assets, distribute the income from the Trust Assets and perform its duties in accordance with the provisions of the Declaration of Trust.

In the Declaration of Trust, the Trustee by way of security for the performance of all covenants and obligations of the Trustee will irrevocably and unconditionally appoint the Delegate to be its delegate and attorney and in its name and on its behalf execute, deliver and perfect all documents and to exercise all of the present and future powers, authorities and discretions (including but not limited to the authority to request instructions from any Certificateholders and the power to sub-delegate and to make any determinations to be made under the Declaration of Trust) vested in the Trustee by the Declaration of Trust that the Delegate may consider to be necessary or desirable in order to perform the present and future powers, authorities and discretions vested in the Trustee by the relevant provisions of the Declaration of Trust (provided that no obligations, duties or covenants of the Trustee pursuant to the Declaration of Trust shall be imposed on the Delegate by virtue of this delegation) and make such distributions from the Trust Assets as the Trustee is bound to make in accordance with the Declaration

of Trust. The appointment of such delegate by the Trustee is intended to be in the interests of the Certificateholders and does not affect the Trustee's continuing role and obligations as sole trustee.

The Delegate will undertake in the Declaration of Trust that, following it becoming aware of the occurrence of a Dissolution Event in respect of any Certificates and subject to Condition 13, it shall (a) promptly notify the Certificateholders of the occurrence of such Dissolution Event with a request to such Certificateholders to indicate if they wish the Certificates to be redeemed and the Trust to be dissolved, and (b) subject to being indemnified and/or secured and/or prefunded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing, take all such actions, steps or proceedings as are necessary to enforce the obligations of the Government under the Declaration of Trust and any other Transaction Document to which the Government is a party.

The Declaration of Trust specifies, *inter alia*, that:

- (a) following the distribution in full of the proceeds of the Trust Assets in respect of the Certificates to the Certificateholders in accordance with the Conditions and the Declaration of Trust, the Issuer shall not be liable for any further sums and, accordingly, the Certificateholders may not take any action against the Issuer, the Trustee, the Delegate or any other person to recover any such sum in respect of the Certificates or the Trust Assets;
- (b) no Certificateholder shall be entitled to proceed directly against the Issuer and/or the Government unless the Delegate having become bound so to proceed, fails to do so within a reasonable period of becoming so bound and such failure is continuing. The Delegate and the Certificateholders shall only be entitled to deal with the Trust Assets as expressly permitted by the Transaction Documents, and the sole right of the Trustee, the Delegate and the Certificateholders against the Trustee, the Issuer, or the Government shall be to enforce their respective obligations under the Transaction Documents to which the Issuer, the Trustee or the Government are a party;
- (c) the Delegate shall not be bound in any circumstances to take any action to enforce or realise the Trust Assets or take any action, step or proceedings against the Issuer, the Trustee and/or the Government under any Transaction Document unless directed or requested to do so by a Dissolution Notice and then only if it is indemnified and/or secured and/or prefunded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing; and
- (d) after enforcing or realising the Trust Assets and distributing the proceeds of the Trust Assets in accordance with Condition 5.2 and the terms of the Declaration of Trust, the obligations of the Issuer, the Trustee and the Delegate in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against the Issuer, the Trustee or the Delegate or any other person to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished.

### **Purchase Undertaking**

The Purchase Undertaking will be executed on or about 1 December 2014 by the Government (the **Obligor**) in favour of the Trustee and the Delegate and will be governed by English law.

The Obligor will irrevocably and unconditionally grant to the Trustee and the Delegate the rights to require the Obligor to purchase or procure the purchase of the Lease Assets from the Trustee on the Scheduled Dissolution Date or any earlier due date for dissolution following the occurrence of a Dissolution Event, as the case may be, at the Exercise Price (being the aggregate face amount of the Certificates then outstanding plus an amount equal to all accrued but unpaid Periodic Distribution Amounts (if any) relating to the Certificates plus an amount equal to any Servicing Agency Expenses

in respect of which a rental payment has not been made in accordance with the Lease Agreement). If the Delegate exercises its option prior to the Scheduled Dissolution Date, an exercise notice will be required to be delivered by the Delegate under the Purchase Undertaking.

The Obligor will undertake in the Purchase Undertaking that if it fails to pay all or part of any Exercise Price when due (the **Outstanding Exercise Price**), it will irrevocably, unconditionally and automatically continue to lease the Relevant Lease Assets from the Trustee and act as servicing agent in respect of the Relevant Lease Assets with effect from the date immediately following the due date for payment of the Outstanding Exercise Price on the terms and conditions, *mutatis mutandis*, of the Lease Agreement and Servicing Agency Agreement until payment of the Exercise Price in full is made by it. For this purpose, **Relevant Lease Assets** means the Lease Assets.

The Obligor will agree in the Purchase Undertaking that all payments by it under the Purchase Undertaking will be made without any deduction or withholding for or on account of tax unless required by law and without set-off (save as described above) or counterclaim of any kind and, in the event that there is any deduction or withholding for or on account of tax, the Obligor shall pay all additional amounts as will result in the receipt by the Issuer of such net amounts as would have been received by it if no deduction or withholding had been made. The payment obligations of the Obligor under the Purchase Undertaking are and will be direct, unconditional, unsubordinated and unsecured obligations of the Obligor and (save for such mandatory exceptions as may be provided by applicable legislation and regulations) shall at all times rank at least *pari passu* with all other direct, unsecured, unsubordinated and unconditional obligations of the Obligor.

The Obligor has agreed in the Purchase Undertaking that each of the following events shall constitute a Government Event:

- (a) the failure to pay on the due date any Exercise Price payable by the Government pursuant to the Purchase Undertaking, the Total Loss Shortfall Amount payable by the Government pursuant to the Servicing Agency Agreement and Rental due by the Government under the Lease Agreement (including payment of any additional amount of Rental pursuant to the Lease Agreement in respect of any additional amounts payable by the Issuer under Condition 10) and such other failure to pay is not cured within 30 days of the due date for payment;
- (b) the Government defaults in the performance of any other covenant or obligation in the Purchase Undertaking or the Declaration of Trust, and, if such default is capable of remedy such default shall continue for a period of 60 days after written notice thereof shall have been given to the Government by the Trustee or the Delegate;
- (c) the failure by the Government to make any payment when due of principal or financial charges in excess of U.S.\$50,000,000 (or its equivalent in other currencies) (whether upon maturity, acceleration or otherwise) on or in connection with the Government Public External Debt, and such failure by the Government continues for 30 days or more after the expiry of any applicable grace period following the date on which such payment became due; and
- (d) the Government declares a suspension of, or a moratorium with respect to, the payments of the Government Public External Debt generally.

### **Substitution and Transfer Undertaking**

The Substitution and Transfer Undertaking will be executed on or about 1 December 2014 by the Trustee in favour of the Government and will be governed by English law.

Pursuant to the Substitution and Transfer Undertaking, the Government may, by exercising its rights under the Substitution and Transfer Undertaking, oblige the Trustee to transfer the relevant Lease Assets to or to the order of the Government upon the issue of an Exercise Notice by the Government on (i) their substitution with assets of a value not less than the value of such Lease Assets or (ii) the

delivery to the Principal Paying Agent for cancellation of Certificates with an aggregate face amount not greater than the value of such Lease Assets.

### **Servicing Agency Agreement**

The Servicing Agency Agreement will be entered into on or about 1 December 2014 by the Government (in its capacity as Servicing Agent) and the Trustee (in its capacity as Lessor) and will be governed by English law.

Pursuant to the Servicing Agency Agreement, the Servicing Agent will be responsible on behalf of the Lessor for carrying out all Major Maintenance and Structural Repair (as defined in the Lease Agreement), the payment of Proprietorship Taxes and Levies (if any) charged, levied or claimed in respect of the Lease Assets and for effecting all appropriate insurances in respect of the Lease Assets.

Notwithstanding the appointment of the Servicing Agent, the Lessee shall, at its own cost and expense, be responsible for the performance of all Ordinary Maintenance and Repair required for the Lease Assets.

The Servicing Agency Agreement provides that if on the occurrence of a Total Loss Event the Servicing Agent receives notice from the Government that Replacement Lease Assets (as defined in the Servicing Agency Agreement) are available on or before the 30th day after the occurrence of the Total Loss Event, the Trustee shall purchase such Replacement Lease Assets from the Government (or any entity acting on their behalf) by way of the payment by the Servicing Agent on behalf of the Trustee of the relevant insurance proceeds (or the assignment of the rights to such insurance proceeds) to the Government and the transfer to the Government by the Trustee of any residual interest it may hold in the Lease Assets (including any remaining rights in respect of any insurance proceeds) on the terms and subject to the conditions of an agreement substantially in the form of the Purchase Agreement in consideration for the sale, transfer and assignment by the Government (or any entity acting on their behalf) of the Replacement Lease Assets to the Trustee.

### **Agency Agreement**

The Agency Agreement will be executed on or about 1 December 2014 between the Government, the Issuer, the Trustee, the Delegate, the Principal Paying Agent, the Registrars and the Transfer Agents and will be governed by English law.

Pursuant to the Agency Agreement, provision will be made for, *inter alia*, payment of all sums due in respect of the Certificates.



## USE OF PROCEEDS

The net proceeds of the issue of the Certificates, expected to amount to approximately U.S.\$999,160,000 after deduction of fees and expenses, will be paid by the Issuer (in its capacity as **Purchaser**) on the Issue Date to or to the order of the Seller for the purchase of the Assets pursuant to the Purchase Agreement, such proceeds to be used for the Government's general budgetary purposes.

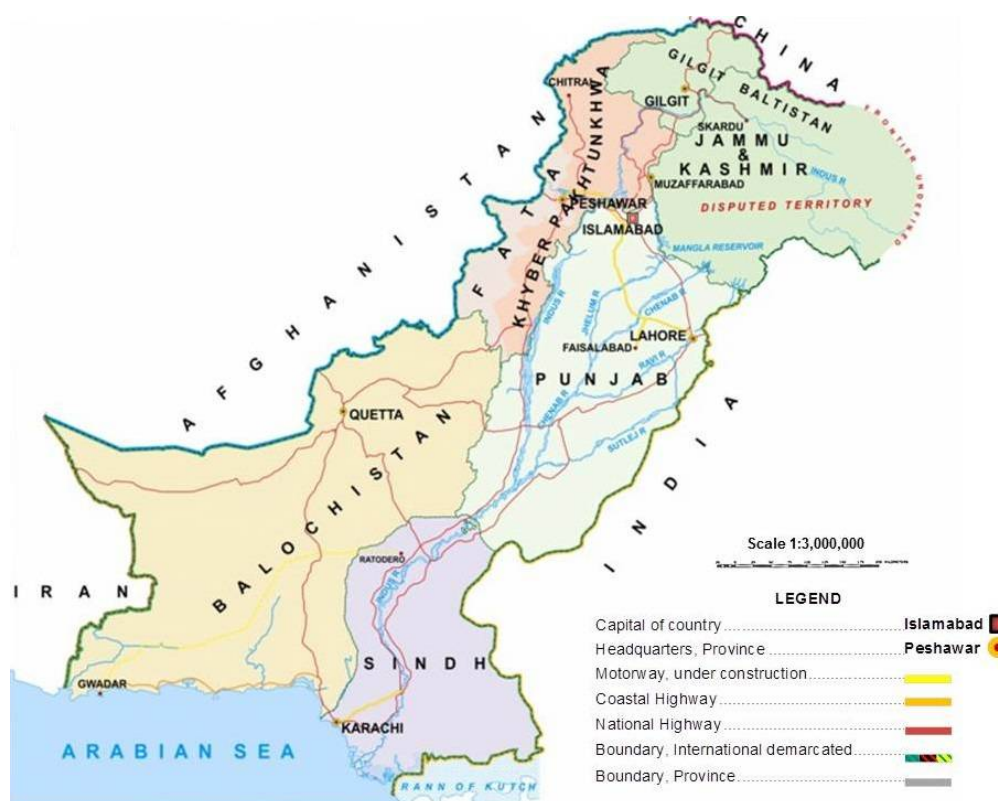
## THE ISLAMIC REPUBLIC OF PAKISTAN

### 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 two of Pakistan's main seaports, the Port of Karachi and Port Qasim. Port Gwadar, the third of Pakistan's main seaports, is located in Balochistan. 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 186 million in 2013-14. 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 61 per cent in 2014.

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 11.8 per cent from 168.18 million to 186 million between 2008-09 and 2013-14. 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 31 October 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
Mr. 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
Mr. 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
Mr. Pir Syed Sadaruddin Shah Rashidi	Overseas Pakistanis and Human Resource Development
Mr. Shahid Khaqan Abbasi	Petroleum and Natural Resources
Mr. Ahsan Iqbal	Planning, Development and Reform
Mr. Kamran Michael	Ports and Shipping
Mr. Khawaja Saad Rafique	Railways
Mr. 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
Mr. Khawaja Muhammad Asif	Water and Power Additionally: Defence
Mr. Akram Khan Durrani	Housing and Works
Mr. Abbas Khan Afridi	Textile Industry

#### MINISTERS OF STATE

Name	Portfolio
Mr. Muhammad Baligh Ur Rehman	Federal Education and Professional Training Additionally: Interior and Narcotics Control
Mr. Usman Ibrahim	Capital Administration and Development Division
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	Communications
Pir Muhammad Amin Ul Hasnat Shah	Religious Affairs and Inter-faith Harmony
Mr. Abid Sher Ali	Water and Power
Mr. Molana Abdul Ghafoor Haideri	Postal Services

#### 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
Engr. Ameer Muqam	Adviser to the Prime Minister

#### SPECIAL ASSISTANTS TO THE PRIME MINISTER

Name	Portfolio
Mr. Tariq Fatimi	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
Mr. Khawaja Zaheer Ahmed	Advocate High Court and 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

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- **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.

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

Pakistan's foreign policy priorities include safeguarding the country's security, economic revival and sustained development, regional and local stability and making Pakistan's strategic location an asset through trade, transport and energy connectivity with China, Central Asia and West Asia.

**International Organisations.** Pakistan is a member of the U.N., the Organisation of the Islamic Conference (the **OIC**), the Non-Aligned Movement, the Commonwealth of Nations, 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 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.

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 arm 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.

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.

As a founding member, Pakistan plays an active role in coalitions of developing countries like the Group of 77 and China (G-77) and G-24 in articulating and promoting the collective economic interests of developing countries and enhancing their joint negotiating capacity on major economic issues in the U.N..

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's strong commitment to peacekeeping is rooted in its foreign policy and belief that every nation should contribute to the maintenance of international peace and security. Pakistan has maintained high levels of participation in the UN peacekeeping, becoming the largest troop-contributing country with around 8,000 Pakistani troops deployed around the world in six UN peacekeeping operations.

**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. The bilateral relationship has improved substantially through a process of deepening and broadening of ties. The US has shown interest in supporting Pakistan's economic development, educational reforms, and measures to increase trade and investment links. Both countries are also working together to expand energy sector cooperation. The US has provided substantial economic and military assistance to Pakistan over the past decade.

The U.S. is Pakistan's largest trade partner, accounting for nearly 16 per cent of Pakistan's total exports in 2013-14. The U.S. is also one of the major foreign investors in Pakistan. A trade and investment framework agreement (TIFA) was signed between Pakistan and the U.S. in June 2003. The council constituted thereunder has met seven times since its inception, last meeting on May 13, 2014. Under TIFA, Pakistan is seeking increased access to the U.S. market. The governments of both the U.S. and Pakistan have developed a five-year Joint Action Plan, as agreed during the meeting of the Prime Minister with the US President in October 2013 establishing cooperation in the field of trade, agriculture, investment and the services sector. 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 consultation with all stakeholders.



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 2015. 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, relations between Pakistan and the United States have continued to improve. In his recent meeting with Prime Minister Nawaz Sharif in New York on 26 September 2014, US Vice President Joe Biden affirmed U.S. support for a democratic Pakistan and its growth and prosperity. Both the leaders also affirmed the common interests that the two countries share.

During Prime Minister Nawaz 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 US Administration officials. A bilateral science and technology cooperation agreement was also renewed on that occasion.

A ministerial review of the Strategic Dialogue between Pakistan and the US was held on 27 January 2014. Four of the five working groups of the Strategic Dialogue subsequently met to discuss (i) energy, (ii) security, strategic stability and non proliferation, (iii) defense, and (iv) the economy and finance. The second round of working group discussions on the economy and finance is scheduled to be held in December 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.\$14.2 billion in 2013-14, 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. In November 2014, China and Pakistan reached inter-governmental agreement on a package of significant investments, loans and grants for infrastructure development and energy projects in Pakistan and enhanced economic cooperation between the two countries over the medium term.

The China-Pakistan Free Trade Agreement (**CPFTA**) was signed on 24 November 2006 and has been implemented from 1 July 2007. The CPFTA covers trade in goods and investment. A free trade agreement relating to trade in services was signed on 21 February 2009 and came into effect 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 trade, investment, regional integration and

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. The trial is ongoing.

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 2013-14, trade between Pakistan and India rose to U.S.\$2.5 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”*.

The Prime Minister of Pakistan’s early contact with Mr. Narendra Modi to congratulate him on BJP’s electoral victory, and his later participation at swearing-in ceremony in New Delhi, reflect Pakistan’s commitment to developing improved relations with India.

Since 2004, Pakistan and India have remained engaged in bilateral discussions, encompassing eight areas of focus. These discussions were interrupted between 2008-2010, and more recently in 2013 and currently remain on hold. From 2011-2013, the dialogue produced positive results, including a roadmap for trade normalization and signing of a visa agreement to ease travel restrictions. Pakistan and India are also discussing cross-border electricity and gas connectivity. Pakistan-India bilateral trade was US \$ 2.31 billion in 2013-14.

The commerce ministers of Pakistan and India held a meeting on 18 January 2014 in New Delhi, India and reached an understanding to normalize trade relations and provide non-discriminatory market access (NDMA) on reciprocal basis. NDMA status would require the elimination of the Pakistan negative list and a reduction in the India SAFTA sensitive list. This dialogue is currently on hold.

NDMA status entails treating imports from a particular country equally with imports from other trading partners in terms of market access and imposition of taxes and customs tariffs. Pakistan has not yet given NDMA status to India. The Pakistan ministry of commerce is in the process of consultation with relevant stakeholders both from public and private sectors to devise a mechanism to ensure that its agricultural and industrial trade with India in terms of market access and the imposition of taxes and customs tariffs is equal to the trading arrangements of its other trading partners. On the completion of this process, the issue of NDMA status to India will be submitted for consideration by Pakistan’s Cabinet.

- **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 and its largest investment partner in the EU, 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. During this visit, a new roadmap on security was concluded and existing roadmaps on culture and education, and on trade and investment, were revised and concluded. 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's Prime Minister Nawaz Sharif visited London from 29 April to 2 May 2014. Prime Minister Sharif attended an energy roundtable conference, organised by the British Government, in London in November 2014.

Pakistan and the U.K. signed a "Declaration on Pakistan-U.K. Enhanced Strategic Dialogue" (ESD) on 5 April 2011 which includes annual summit level meetings at Prime Minister level and bi-annual meetings at Foreign Minister level. The second bilateral meeting was held in London on 13 March 2014. The ESD focuses on five areas of cooperation: (i) trade and business relations, (ii) financial, macro-economic stabilization and development cooperation, (iii) education and health (iv) consultations on defence and security, and (v) cultural cooperation.

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 became effective as of 1 January 2014 and 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. The UK also is an important development partner. The UK Department for International Development (DFID) initiated a new operational plan (2011-2015) which envisages assistance of almost £1.4 billion over four years. The plan makes Pakistan the largest recipient of UK's development assistance in the world. 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. Many of these projects have been successfully completed, while others are underway. 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.\$1.48 billion in 2013-14. 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.

Both sides have agreed to expand the trade volume to U.S.\$5 billion by 2015. The joint economic commission, in its last meeting in Kabul in February 2014, decided to take forward the process of diversifying and deepening bilateral economic cooperation.

The two countries are also working on a range of bilateral and regional projects related to road, rail, energy and connectivity. In the regional context, the two countries are working to promote energy projects, including a gas pipeline.

Prime Minister Sharif has had four summit meetings with former 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. The two countries have a preferential trade agreement. Trade between the two countries has declined sharply due to lack of effective and compliant banking channels in light of international sanctions against Iran. Bilateral trade between Pakistan and Iran, which was U.S.\$1.3 billion in 2012-2013, has decreased to only U.S.\$265.3 million in 2013-14, or 0.3 per cent of Pakistan's total trade. Pakistan's exports to Iran have also declined to U.S.\$52.7 million, while imports from Iran were U.S.\$164.8 million in 2013-14, consistent with imports from Iran in 2012-13. Pakistan's major exports to Iran primarily consist of agricultural, textiles and pharmaceutical products. Pakistan also imports electricity from Iran which is supplied to Makran division. Although trade levels between Pakistan and Iran are far below their potential due to international sanctions, efforts are being made to expand the trade volumes when the international sanctions are lifted. 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. Subject to international sanctions compliance, Pakistan is committed to the project and remains engaged with Iran in respect of its development. 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.

Prime Minister Nawaz Sharif has twice visited Turkey in 2013 and 2014 while the Turkish Prime Minister also visited Pakistan in 2013. Both sides are in negotiations to reach a preferential trade agreement. Bilateral trade between the two countries was U.S.\$722 million in 2013. Turkish companies have been involved in construction of motorways and the Lahore metro bus project. The Rawalpindi – Islamabad Metro bus project is also being undertaken with Turkish collaboration.

***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 in February 2014. The Crown Prince chose Pakistan as the first destination in his Asian tour. During discussions, both countries agreed to expand and improve investment in trade, energy, infrastructure development and agriculture for mutual benefit.

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.\$4.7 billion of foreign workers' remittances in 2013-14.

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. After the failure of negotiations with nominees of the Tehreek-e-Taliban Pakistan, the Government launched an operation to clear the hide-outs of terrorists in North Waziristan and elsewhere in June 2014.

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. In June 2014, armed militants attacked Jinnah International Airport in Karachi, killing 36 people and injuring at least 18 people. More recently suicide attacks at the Wagah border led to the killing of more than 60 civilians. 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 issues between India and Pakistan. 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 of November 2008, and in January 2014 Pakistan's anti-terrorism court began hearing the trial of seven men charged with involvement in the attacks. The trial is ongoing.

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 17.6 per cent in 2008-09 to 14.0 per cent in 2013-14.

**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.

As a result of the implementation of the NISP, Pakistan has experienced a significant reduction in the number of suicide bombings and deaths resulting therefrom during 2014.

## 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 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<sup>st</sup> July to 30<sup>th</sup> June. Pakistan's economy has three principal sectors: services (58 per cent of GDP 2013-14), industrial (21 per cent of GDP 2013-14) and agriculture (21 per cent of GDP 2013-14).

Pakistan's principal export destinations are the U.S., China, the E.U, the United Arab Emirates and Afghanistan. In 2013-14, Pakistan's exports were U.S.\$25.15 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 2013-14, Pakistan's imports were U.S.\$41.78 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 4.1 per cent in 2013-14, 3.7 per cent in 2012-13 and 3.8 per cent in 2011-12. The increased growth of GDP in 2013-14 reflects growth in all three principal economic sectors – services, agriculture and industrial. In 2013-14 the services sector grew at 4.29 per cent (4.85 per cent in 2012-13), the agriculture sector grew at 2.12 per cent (2.88 per cent in 2012-13) and the industrial sector grew at 5.84 per cent (1.37 per cent in 2012-13). The slowdown in GDP growth from 3.8 per cent in 2011-12 to 3.7 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 2009-10 to 2013-14:



	2009-10	2010-11	2011-12	2012-13	2013-14 <sup>(1)</sup>
GDP at current market price ( <i>Rupees million</i> ).....	14,866,996	18,276,440	20,046,500	22,489,077	25,401,895
GNI at current market price ( <i>Rupees million</i> ).....	15,433,243	19,096,665	21, 082,207	23,650,295	26,775,661
Population ( <i>million</i> ).....	171.7	175.3	178.9	182.5	186
Per capita income at factor cost ( <i>Rupees</i> ) .....	86,268	105,347	114,008	124,736	136,736
Per capita income ( <i>U.S.\$</i> ).....	1,072	1,274	1,321	1,340	1,386
Exports ( <i>U.S.\$ million</i> ) (fob).....	19,673	25,356	24,696	24,795	25,151
Imports ( <i>U.S.\$ million</i> )(fob).....	31,209	35,872	40,461	40,226	41,786
Balance of trade ( <i>U.S.\$ million</i> ) .....	(11,536)	(10,516)	(15,765)	(15,431)	(16,635)
Workers' remittances ( <i>U.S.\$ million</i> ).....	8,906	11,201	13,186	13,922	15,832
Current account (US \$ <i>million</i> ).....	(3,946)	214	(4,658)	(2,496)	(2,971)
Current account ( <i>as % of GDP</i> ).....	(2.2)	0.1	(2.1)	(1.1)	(1.2)
Overall fiscal deficit ( <i>as % of GDP</i> ).....	6.2	6.5 <sup>(2)</sup>	6.8 <sup>(3)</sup>	8.2	5.5
GDP growth at factor cost (%) .....	2.6	3.7	4.4	3.6	4.14
Inflation (%) .....	10.1	13.7	11.0	7.4	8.6
Total investment at market price ( <i>as % of GDP</i> ).....	15.8	14.1	14.9	14.2	14.0
Real GDP at factor cost ( <i>Rupees million</i> ).....	8,801,394	9,120,336	9,470,255	9,820,249	10,226,664
Private consumption expenditure at current prices ( <i>Rupees million</i> ).....	11,851,316	14,831,293	16,527,831	18,25,832	20,445,595
National savings ( <i>as % of GDP</i> ).....	13.6	14.2	13.0	13.5	12.9

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

(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 upper 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 three times, with the IMF publishing reports in January 2014, in March 2014 and in July 2014. The IMF's fourth and fifth quarterly review of Pakistan's economy have been combined and are currently underway. The IMF expects to publish its next report in December 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 2013-14 represented 5.5 per cent of GDP, compared to 8.2 per cent of GDP in 2012-13. The Government's fiscal deficit target for 2014-15 is 4.9 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 4.0 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 was 4.1 per cent for 2013-14 and is forecast at 5.1 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 remained at approximately 8.6 per cent in 2013-14 and is projected to be contained at a level of approximately 8.0 per cent 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. A recent SBP consumer confidence survey predicts moderation in the expected levels of inflation in 2014-15. In October 2014, inflation was 5.8 per cent. 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 below the U.S.\$14.0 billion (inclusive of reserves held by local banks) projected by the Government by the end of fiscal year 2014-15. Foreign exchange reserves increased to U.S.\$14.1 billion at the end of 2013-14 compared to U.S.\$11.0 billion at the end of 2012-13. As of 30 October 2014, foreign exchanges reserves were U.S.\$13.3 billion. See “*Balance of Payments and Foreign Trade – Inflation, Money and Monetary Policy*”; and

- *Debt.* Pakistan’s external debt was approximately 19 per cent of GDP at 30 June 2014 and (subject to significant exchange rate depreciation, a decline in remittances and/or rise in oil prices) is projected by the Government to remain at this level for the medium term. Public debt is also expected to decline over the medium-term. Pakistan has successfully extended its debt maturity profile over recent years. 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 2.8 per cent from 2008-9 to 2012-13 and, during 2013-14, GDP growth averaged 4.1 per cent growth. 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 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 2013-14, Rupees 1,934.2 billion, or 7.6 per cent of GDP, was spent under 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 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 was 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 1,200 per month per family to Rupees 1,500 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, over 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 21.0 billion exists in 2014-15 – 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 8.7 per cent (2012-13) to 15 per cent (2017-18). The objective is for the FBR to issue an additional 120,000 tax notices by the end of 2013-2014 in order to capture an additional 300,000 new taxpayers by 2015-16 (139,000 tax notices had been issued as of 30 October 2014), 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 Privatisation Commission re-launched its privatization program in 2013 by identifying 31 entities for early privatisation, as approved by the CCOP in its meeting held in October 2013. The Privatisation Commission has successfully executed two capital market transactions in 2014; an offering of the Government of Pakistan's 19.8 per cent ownership in United Bank Limited and an offering of the Government of Pakistan's 5 per cent ownership in Pakistan Petroleum Limited, together raising

proceeds of over Rupees 53 billion. The Privatisation Commission aims to pursue the following road-map through December 2015:

Entity	Approximate Government Holding (including BESOS <sup>(1)</sup> )	Divestment Size/Mode	Market Capitalisation (U.S.\$ Million) <sup>(2)(3)</sup>	Target Date
Oil and Gas Development Company (OGDCL).....	85%	Up to 10% capital market transaction	11,454	March 2015
Allied Bank Limited (ABL).....	10%	Up to 10% capital market transaction	1,237	December 2014
Habib Bank Limited (HBL).....	42%	Up to 42% capital market transaction	2,733	April 2015
National Power Construction Company (NPCC) .....	100%	Strategic sale	Unlisted	March 2015
Heavy Electrical Complex .....	100%	Strategic sale	Unlisted	December 2014
Pakistan International Airlines (PIA).....	93%	Strategic private sector participation	Unlisted	December 2015
Faisalabad Electric Supply Company (FESCO) .....	100%	Strategic private sector participation	Unlisted	October 2015
Lahore Electric Supply Company (LESCO) .....	100%	Strategic private sector participation	Unlisted	December 2015
Northern Power Generation Company	100%	Strategic private sector participation	Unlisted	November 2015
Islamabad Electric Supply Company (IESCO) .....	100%	Strategic private sector participation	Unlisted	December 2015
Convention Centre, Islamabad	100%	Strategic private sector participation	Unlisted	June 2015
Pakistan International Airlines Investments (Roosevelt and Scribe hotels)	100%	Strategic sale	Unlisted	June 2015
Pakistan Steel Mills	100%	Strategic sale	Unlisted	October 2015

(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 1 September 2014.

(3) U.S.\$ amount calculated based on U.S.\$ / PKR exchange rate on 1 September 2014, being PKR 102.5 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. As a result of trade liberalisation, Pakistan's exports exceeded 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 increase in Pakistan’s exports to India (to U.S.\$408 million in 2013-14 compared to U.S.\$338 million in 2011-12) and the increase in Pakistan’s imports from India (to U.S.\$2.05 billion in 2013-14 compared to U.S.\$1.5 billion in 2011-12).

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.\$1.0 billion to the Pakistani economy in 2014, principally through increased exports of ethyl 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. As a result of attaining GSP+ status, Pakistan’s exports to the EU increased by 21.2 per cent in 2013-14 compared to 2012-13 and its share of exports to EU countries as a percentage of its total exports increased to 25 per cent in 2013-14 compared to 2012-13. Value added textile exports to EU countries increased by 26 per cent in the period January through August 2014 compared to the same period in the prior fiscal year.

***Reform of the 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 supervision and regulation of non-bank financial companies is with the Securities and Exchange Commission of Pakistan (SECP). The SBP supervises the banking sector. The SBP has revised banking regulations with a view to providing flexibility and enhancing prudence. The SBP's supervisory regime, which adequately complies with core principles of effective banking supervision, 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 through 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 increased minimum capital requirements. 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 within the limits prescribed under the Basel-III rules.

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 were successfully corporatized and demutualized on August 27, 2012 under of the Stock Exchanges (Corporatisation, Demutualization and Integration) Act, 2012. Demutualisation was an important reform for the Pakistan capital markets as it addressed the conflicts prevalent in the historic mutualised regime of the stock exchanges by separating ownership from trading rights and segregating the commercial and regulatory functions of the stock exchanges.

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 four 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 21 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 per cent of GDP in 2013-14 while the services sector increased from 45 per cent of GDP in 1969-70 to 58 per cent of GDP in 2013-14.

The following table sets out Pakistan's GDP at basic prices of 2005-06, as well as the contribution of various sectors of the economy to GDP in the period 2009-10 to 2013-14:

Sectors	2009-10	2010-11	2011-12	2012-13	2013-14 <sup>(1)</sup>	2011-12/ 2012-13	2012-13/2013-14 <sup>(1)</sup>
<i>(Rupees million, unless otherwise stated)</i>						<i>(% change)</i>	
<b>A. SERVICES SECTOR.....</b>	<b>5,010,698</b>	<b>5,208,136</b>	<b>5,437,145</b>	<b>5,700,973</b>	<b>5,945,276</b>	<b>4.9</b>	<b>4.3</b>
1. Wholesale and retail trade .....	1,682,465	1,718,014	1,746,511	1,805,507	1,899,067	3.4	5.2
2. Transport, storage and communication.....	1,170,612	1,198,896	1,254,126	1,290,287	1,328,754	2.9	3.0
3. Finance and insurance .....	286,775	274,674	279,171	304,252	319,968	9.0	5.2
4. Housing services (ownership of dwellings).....	590,718	614,460	639,003	664,542	691,149	4.0	4.0
5. General government services.....	499,038	569,191	632,130	703,717	719,109	11.3	2.2
6. Other private services.....	781,089	832,901	886,204	932,668	987,229	5.2	5.8
<b>B. AGRICULTURE SECTOR .....</b>	<b>1,939,132</b>	<b>1,977,178</b>	<b>2,048,794</b>	<b>2,107,715</b>	<b>2,152,313</b>	<b>2.9</b>	<b>2.1</b>
1. Crops.....	798,244	806,162	832,128	851,328	861,151	2.3	1.2
Important crops.....	478,540	485,722	523,936	530,146	549,968	1.2	3.7
Other crops .....	259,054	264,934	245,007	259,831	250,647	6.1	(3.5)
Cotton ginning.....	60,650	55,506	63,185	61,351	60,536	(2.9)	(1.3)
2. Livestock.....	1,051,755	1,087,406	1,130,740	1,169,757	1,203,451	3.5	2.9
3. Forestry .....	40,207	42,121	42,874	43,297	43,953	1.0	1.5
4. Fishing.....	48,926	41,489	43,052	43,333	43,758	0.7	1.0
<b>C. INDUSTRIAL SECTOR.....</b>	<b>1,851,564</b>	<b>1,935,022</b>	<b>1,984,316</b>	<b>2,011,561</b>	<b>2,129,075</b>	<b>1.4</b>	<b>5.8</b>
1. Mining and quarrying.....	282,269	269,798	283,727	294,609	307,646	3.8	4.4
2. Manufacturing .....	1,197,163	1,227,091	1,252,670	1,309,447	1,382,106	4.5	5.5
Large scale.....	990,928	1,007,331	1,018,706	1,060,295	1,116,623	4.1	5.3
Small scale.....	123,083	133,556	144,713	156,691	169,780	8.3	8.4
Slaughtering .....	83,152	86,204	89,251	92,461	95,703	3.6	3.5
3. Electricity generation and distribution and gas distribution .....	135,098	221,379	224,490	187,834	194,817	(16.3)	3.7
4. Construction .....	237,034	216,754	223,429	219,671	244,506	(1.7)	11.3
<b>COMMODITY PRODUCING SECTOR (B+C).....</b>	<b>3,790,696</b>	<b>3,912,200</b>	<b>4,033,110</b>	<b>4,119,276</b>	<b>4,281,388</b>	<b>2.1</b>	<b>3.9</b>
GDP at factor cost .....	8,801,394	9,120,336	9,470,255	9,820,249	10,226,664	3.7	4.1
Indirect taxes .....	509,152	504,829	533,424	519,054	600,443	(2.7)	15.7
Subsidies .....	157,993	221,063	269,772	176,255	114,054	(34.7)	(35.3)
GDP at market price.....	9,152,553	9,404,102	9,733,908	10,163,048	10,713,053	4.4	5.4
Net factor income from abroad.....	310,494	372,728	386,559	402,084	462,547	4.0	15.0
GNI at factor cost.....	9,111,888	9,493,064	9,856,814	10,222,333	10,689,211	3.7	4.6
GNI at market price.....	9,463,047	9,776,830	10,120,466	10,565,132	11,175,600	4.4	5.8
Population ( <i>million</i> ).....	171.7	175.3	178.9	183	186	2.0	2.0
Per capita income at factor cost ( <i>Rupees</i> ).....	53,059	54,152	55,094	56,004	57,410	1.7	2.5

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

Source: Pakistan Bureau of Statistics



The following table sets out Pakistan's GDP at basic prices, as well as the contribution of various sectors of the economy to GDP in the period 2009-10 to 2013-14:

Sectors	2009-10	2010-11	2011-12	2012-13	2013-14 <sup>(1)</sup>	2011-12/ 2012-13	2012-13/2013-14
<i>(Rupees million, unless otherwise stated)</i>						<i>(% change)</i>	
<b>A. SERVICES SECTOR.....</b>	<b>7,855,579</b>	<b>9,307,836</b>	<b>10,338,770</b>	<b>11,626,042</b>	<b>12,907,802</b>	<b>12.5</b>	<b>11.0</b>
1. Wholesale and retail trade.....	2,824,137	3,568,178	4,006,835	4,370,189	4,875,708	9.1	11.6
2. Transport, storage and communication.....	1,834,476	1,923,433	1,905,704	2,290,042	2,415,576	20.2	5.5
3. Finance and insurance.....	474,733	536,345	570,503	526,911	606,280	(7.6)	15.1
4. Housing services (ownership of dwellings).....	789,220	886,370	984,148	1,092,773	1,228,126	11.0	12.4
5. General government services.....	778,002	1,009,433	1,244,687	1,486,115	1,651,080	19.4	11.1
6. Other private services.....	1,155,011	1,384,077	1,626,893	1,860,012	2,131,032	14.3	14.6
<b>B. AGRICULTURE SECTOR .....</b>	<b>3,461,273</b>	<b>4,592,720</b>	<b>4,753,075</b>	<b>5,426,103</b>	<b>6,051,015</b>	<b>14.2</b>	<b>11.5</b>
1. Crops .....	1,604,816	2,309,517	1,966,610	2,268,351	2,640,485	15.3	16.4
Important crops.....	1,058,365	1,532,889	1,236,453	1,469,584	1,760,001	18.9	19.8
Other crops.....	423,866	552,499	586,669	641,685	704,751	9.4	9.8
Cotton ginning.....	122,585	224,129	143,488	157,082	175,733	9.5	11.9
2. Livestock .....	1,717,446	2,131,579	2,610,408	2,955,865	3,184,843	13.2	7.7
3. Forestry.....	72,423	89,390	113,103	129,350	146,502	14.4	13.3
4. Fishing.....	66,588	62,234	62,954	72,538	79,185	15.2	9.2
<b>C. INDUSTRIAL SECTOR.....</b>	<b>2,931,695</b>	<b>3,746,997</b>	<b>4,269,666</b>	<b>4,554,616</b>	<b>5,126,288</b>	<b>6.7</b>	<b>12.6</b>
1. Mining and quarrying	475,366	494,739	642,205	696,691	766,407	8.5	10.0
2. Manufacturing	1,943,839	2,527,651	2,809,684	3,027,831	3,387,188	7.8	11.9
Large scale.....	1,644,117	2,144,831	2,362,410	2,509,787	2,802,638	6.2	11.7
Small scale.....	167,383	208,611	241,951	283,095	324,841	17.0	14.7
Slaughtering.....	132,339	174,209	205,323	234,948	259,709	14.4	10.5
3. Electricity generation and distribution and gas distribution.....	209,936	406,156	439,637	418,272	478,377	(4.9)	14.4
4. Construction .....	302,554	318,451	378,140	411,822	494,316	8.9	20.0
<b>COMMODITY PRODUCING SECTOR (B+C).....</b>	<b>6,392,968</b>	<b>8,339,717</b>	<b>9,022,741</b>	<b>9,980,719</b>	<b>11,177,303</b>	<b>10.6</b>	<b>12.0</b>
GDP at factor cost.....	14,248,547	17,647,553	19,361,511	21,606,761	24,085,105	11.6	11.5
Indirect taxes .....	870,853	1,046,915	1,221,540	1,275,990	1,600,540	4.5	25.4
Subsidies.....	252,404	418,028	536,551	393,674	283,750	(26.6)	(27.9)
GDP at market price .....	14,866,996	18,276,440	20,046,500	22,489,077	25,401,895	12.2	13.0
Net factor income from abroad.....	566,247	820,225	1,035,707	1,161,218	1,373,766	12.1	18.3
GNI at factor cost .....	14,814,794	18,467,778	20,397,218	22,767,979	25,458,871	11.6	11.8
GNI at market price .....	15,433,243	19,096,665	21,082,207	23,650,295	26,775,661	12.2	13.2
Population (million).....	171.7	175.3	178.9	183	186	2.0	2.0
Per capita income at factor cost (Rupees) .....	86,268	105,347	114,008	124,736	136,736	9.4	9.6
Per capita income at market price (Rupees).....	89,869	108,934	117,837	129,569	143,808	10.0	11.0

Sectors	2009-10	2010-11	2011-12	2012-13	2013-14 <sup>(1)</sup>	2011-12/ 2012-13	2012-13/ 2013-14
Per capita income at market price (U.S.\$) .....	1,072	1,274	1,321	1,340	1,386	1.4	3.5
GDP deflator index.....	162	193	204	220	236	7.6	7.0
GDP deflator (% growth).....	10.7	19.5	5.7	7.6	7.0	-	-

(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 58 per cent of GDP in 2013-14, growing by 4.3 per cent in 2013-14 compared to 58 per cent of GDP (and growth of 4.9 per cent) in 2012-13. The growth performance in the services sector has come from all sub-sectors.

### 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. Construction of a 24 km, 24 station Rawalpindi to Islamabad metrobus project also commenced in February 2014 and is expected to be completed in January 2015, initially with 60 buses on the new route. Average daily capacity is estimated to be 150,000 people once the project is completed. Lahore already maintains a metro bus network.

**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 has fallen significantly whilst working costs have increased.

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 43.2 million Mt of cargo in 2013-14. 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 32 million Mt of cargo in 2013-14, experiencing significant growth.

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 2014 was over 5.7 million Mt. See also "*Energy in Pakistan – LNG*" below for a description of the LNG terminal and related 700 km Gwadar to Nawabshah pipeline currently under construction.

## **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 segments of the telecommunications sector 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 2013-14. The total mobile connections of five mobile operators were 140 million as at 30 June 2014. Teledensity was approximately 76.2 per cent (based on connections) as at 30 June 2014, a growth of

5.7 per cent during 2013-14. At the same time, increased competition among cellular operators resulted in lower tariffs for consumers. In 2013-14 Mobilink had 28 per cent of the market, Telenor 26 per cent, Ufone 17 per cent, CMPak 20 per cent and Warid 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 gradual 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. As at 30 June 2014, Pakistan had 2.5 million wireless local loop subscribers compared to 2.2 million as at 30 June 2008.

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

	2009-10	2010-11	2011-12	2012-13	2013-14
	<i>(U.S.\$ million)</i>				
Cellular.....	908.8	358.6	211.8	570.4	1,789.7
Long distance international services.....	183.1	108.7	13.2	1.9	1.8
Local loop.....	22.5	18.2	5.0	16.1	14.1
Wireless local loop .....	23.0	7.6	7.3	11.9	9.9
<b>Total .....</b>	<b>1,137.3</b>	<b>493.2</b>	<b>237.3</b>	<b>600.3</b>	<b>1,815.5</b>

(1) Provisional.

Source: Pakistan Telecommunication Authority

Broadband subscriber percentage growth in Pakistan has been significant. Subscriptions have increased from minimal levels in 2005 to 3.8 million by 30 June 2014, with a penetration rate of 2 per cent.

The Government has liberalised investment policies allowing foreign investors in the telecommunications sector to own all the shares in a company and repatriate all of the profit. Such policies have attracted significant FDI. During 2013-14, the telecommunications sector attracted over U.S.\$903 million of FDI, almost 34.2 per cent of the total FDI received by Pakistan that period. The Government recently auctioned spectrum for Next Generation Mobile Services including 3G and 4G. The auction concluded in May 2014 with a total value of U.S.\$1.11 billion. To date U.S.\$965 million of the auction proceeds have been paid to the Government, contributing significantly to FDI, with the balance due in equal annual instalments in the next five years.

### **Financial Services**

The financial sector in Pakistan consists of commercial banks, development finance institutions (**DFIs**), microfinance banks (**MFBs**), 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 37 commercial banks, eight development finance institutions and ten nation-wide (including two district-wide) microfinance banks. The commercial banks comprise five public sector banks, 17 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 influences money supply through changes in base interest rate(s). The SBP also uses open market operations, changes in cash reserve and statutory liquidity requirements to influence availability of liquidity and broad money in the economy. Open market operations and standing 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-II capital rules. All the banks are required to maintain a capital adequacy ratio (**CAR**) of 10 per cent. However, as prescribed by Basel III rules, an additional capital conservation buffer of 2.5 per cent (in the form of common equity tier-1 capital) will be transitioned in by 31 December 2019. The tier 1 capital requirement has also been raised from 5 per cent to 6.5 per cent with effect from 31 December 2013 in line with Basel III instructions. Furthermore, banks are also required to hold minimum paid-up capital (net of losses) of Rupees 10 billion effective 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, including with respect to profitability, high liquidity and capitalisation. The banking sector grew at an annual average growth rate of 12.6 per cent over the last six years (2008-2014). Its asset base was Rupees 11.1 trillion as at 30 June 2014, profits before tax for 2012-13 were Rupees 162 billion (Rupees 113 billion for half year ending June 2014 and Rupees 176 billion for the nine month period ended September 2014) and solvency of the system remained strong, with CAR at 15.1 per cent as of 30 June 2014 and CAR at 15.5 per cent as of 30 September 2014. The level of non-performing loans has decreased substantially over the last four fiscal years from Rupees 185 billion in 2009-10 to Rupees 122 billion in 2013-14. 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.** 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 1,089 billion at 30 June 2014, compared to Rupees 903 billion at 30 June 2013, representing growth of 20.5 per cent. The deposits of Islamic banks were Rupees 932 billion at 30 June 2014, constituting 10.6 per cent of total bank deposits. The financing and investment portfolios of Islamic banks were Rupees 325 billion and Rupees 358 billion, respectively, at 30 June 2014. 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 assets to 9.8 per cent of total banking assets in 2013-14. The number of Islamic banking institutions also increased to 22 by June 2014. Five are fully fledged Islamic banks and 17 are conventional banks which have Islamic banking branches. The Government expects this to increase; one bank 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 increase the branch network of Islamic banks to 2,000 (currently approximately 1,300) and increase the market share of Islamic banking in Pakistan to 15 per cent of total bank deposits (from its current 10.6 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 or 10 per cent of financing, whichever is higher, 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:

	2009-10	2010-11	2011-12	2012-13	2013-14
<b>KARACHI STOCK EXCHANGE</b>					
(i) Total listed companies .....	652	639	591	569	557
(ii) New companies listed .....	8	1	3	4	5
(iii) Funds mobilised ( <i>Rupees billion</i> ) .....	111.8	31.0	115.1	46.1	47.6
(iv) Total turnover of shares ( <i>Rupees billion</i> ) .....	42.7	28.0	38.1	53.4	56.6

LAHORE STOCK EXCHANGE					
(i) Total listed companies .....	510	496	459	440	432
(ii) New companies listed .....	25	9	2	2	4
(iii) Funds mobilised ( <i>Rupees billion</i> ) .....	67.5	18.1	13.3	7.6	40.4
(iv) Total turnover of shares ( <i>Rupees billion</i> ) .....	3.4	1.1	0.9	0.9	0.7
ISLAMABAD STOCK EXCHANGE					
(i) Total listed companies .....	244	236	218	210	270
(ii) New companies listed .....	2	-	-	1	5
(iii) Funds mobilised ( <i>Rupees billion</i> ) .....	76.6	17.8	12.8	5.1	29.6
(iv) Total turnover of shares ( <i>Rupees billion</i> ) .....	0.2	0.04	0.03	0.03	0.04

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 investing 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**), the KSE-30 Index (the **KSE-30**), and the KSE All Share Index 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 2010 to 2014.

	KSE Index				
	2010	2011	2012	2013	2014*
High.....	12,031.46	12,681.94	16,943.19	25,579.33	29,938.66
Low .....	9,229.60	10,842.26	10,909.12	16,107.89	25,261.14
Year end .....	12,022.46	11,347.66	16,905.33	25,261.14	29,652.53

Source: Reuters, Karachi Stock Exchange \* June 30

### 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 improve compliance by listed companies;
- the 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 ownership and trading rights and enhanced governance and transparency through segregation of commercial and regulatory functions of the stock exchanges;
- 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;
- launch of trading of government debt instruments at the stock exchanges in coordination with the Federal Government and the SBP. The trading of Treasury-bills at the Karachi Stock Exchange commenced on 18 February 2014.
- 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 broker's main account;
- the introduction of the Direct Settlement Service (DSS) mechanism in the Central Depository System to prevent unauthorized use of clients' securities. DSS will also bring increased efficiency and transparency to the clearing and settlement process by eliminating the need for the investor to open a sub-account with a broker;
- 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; and
- on the Islamic capital market side, SECP has created the Shariah Advisory Board (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.

In June 2014, SECP approved the second domestic listed Sukuk issued by Engro Corporation Limited, amounting to Rupees 4 billion.

### ***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;
- ensuring that the supervisory framework for banks sufficiently complies with the international best practices and Basel core principles of banking supervision. The framework is continuously improved 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 2014, its conviction rate was 63.5 per cent compared to 52.9 per cent in 2013 and 47.5 per cent in 2012. To improve its standards, NAB has recently increased the number of investigators and is developing closer relationships with its international counterparts. To date, the NAB has proposed approximately 400 new measures to combat corruption and money laundering, as well as measures relating to electoral reform.

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. The anti-money laundering and counter-terrorist financing regulations issued by the SBP cover all important aspects of preventive measures required by international standards, including customer due diligence of bank customers, correspondent banking for cross-border transactions, wire transfer requirements for sending and receiving funds, reporting of suspicious transactions under anti-money laundering law, record-keeping of banking transactions for ten years, and other requirements on internal controls, policies, compliance, audit and training. The instructions of SBP 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 and SECP actively contributed during and after the evaluation. All the stakeholders, including the SBP and SECP, have taken necessary measures in their respective areas in response to the APG mutual evaluation. The SBP and SECP have also 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 per cent of GDP in 2013-14, and is the largest employer, employing 43.7 per cent of Pakistan's total labour force. Nearly 67.5 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 1.4 per cent of GDP in 2013-14 and 6.7 per cent in agriculture value addition), 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 3.6 per cent per annum, respectively, of contribution to GDP (at basic prices 2005-06). Growth in 2013-14 was 2.1 per cent (2.9 per cent in 2012-13). The decline was principally due to a decrease in cotton production and other minor crops due to extreme weather conditions, offset by increased production of rice, sugarcane, wheat and maize crops. The Government estimates that the agriculture sector will grow by 3.3 per cent in 2014-15 on the basis of expected contributions of important crops (1.5 per cent growth), other crops (4.5 per cent growth), cotton ginning (5.0 per cent growth), livestock (3.8 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 rate (at basic prices 2005-06) from 2009-10 to 2013-14 and the Government targets for 2014-15 are set out below:

	2009-10	2010-11	2011-12	2012-13	2013-14 <sup>(1)</sup>	2014-15 <sup>(2)</sup>
Agriculture .....	0.2	2.0	3.6	2.9	2.1	3.3
Crops .....	(4.2)	1.0	3.2	2.3	1.2	2.4
Important crops .....	(3.7)	1.5	7.9	1.2	3.7	1.5
Other crops .....	(7.2)	2.3	(7.5)	6.1	(3.5)	4.5
Cotton ginning .....	7.3	(8.5)	13.8	(2.9)	(1.3)	5.0
Livestock .....	3.8	3.4	4.0	3.5	2.9	3.8
Fishery .....	1.4	(15.2)	3.8	0.7	1.0	2.0
Forestry .....	(0.1)	4.8	1.8	1.0	1.5	2.0

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

(2) Government target.

Source: Ministry of Finance

Livestock is the single largest contributor to the overall agricultural sector, representing 55.9 per cent in 2013-14 and recording growth of 2.9 per cent. 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. In 2014, there was extensive flooding which reduced the output of Pakistan's agricultural sector. 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 25.6 per cent of the agricultural sector in 2013-14 and recorded growth of 3.7 per cent in 2013-14 (1.2 per cent in 2012-13). The following table sets out information regarding the production volumes of Pakistan's important crops for the periods indicated:

	2009-10	2010-11	2011-12	2012-13	2013-14 <sup>(1)</sup>	2012-13	2013-14 <sup>(1)</sup>
	<i>(thousand tons, unless otherwise stated)</i>					<i>(% change)</i>	
Cotton (thousand bales) .....	12,914	11,460	13,595	13,026	12,769	(4.2)	(2.0)
Sugarcane .....	49,373	55,309	58,397	63,750	66,467	9.2	4.3
Rice .....	6,883	4,823	6,160	5,536	6,798	(10.0)	22.8
Maize .....	3,261	3,707	4,338	4,220	4,527	(2.7)	7.3
Wheat .....	23,311	25,214	23,473	24,211	25,286	3.1	4.4

(1) Provisional.

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 formulated a food and nutrition security policy at both federal and provincial levels which it launched in 2013-14 and which aims to secure water supply and to grow agricultural exports.

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 21 per cent of GDP in 2013-14. It is a major source of tax revenue for the Government and contributes significantly to the provision of jobs in the labour force. 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 and 53 per cent of the industrial sector) has in recent years been significantly affected by the energy crisis, during 2013-14 it experienced significant growth of 5.3 per cent compared to 4.7 per cent in 2012-13. The Government expects to realise further positive LSM growth through the end of the 2014-15 fiscal year and beyond. During 2013-14 there were recorded increases in 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 for the periods indicated:

Sector	Share of LSM Sector Output compared to Total Industrial Sector Output 2013-14	2011-12	2012-13	2013-14 <sup>(1)</sup>
	(%)	(% growth)		
Textile .....	30.2	0.26	1.60	1.32
Food, beverages and tobacco.....	21.4	6.41	9.79	7.16
Coke and petroleum products.....	4.0	(6.73)	16.18	6.22
Pharmaceuticals.....	6.5	6.98	6.28	(0.17)
Chemicals.....	4.9	(2.66)	(0.29)	6.87
Automobiles .....	3.8	3.31	(12.85)	(2.56)
Iron and steel products.....	2.2	(23.30)	8.68	5.58
Fertilizers.....	4.0	0.08	(4.02)	16.50
Electronics.....	1.1	(6.85)	0.01	9.55
Leather products .....	1.4	(0.50)	1.54	11.65
Paper and board.....	6.9	19.19	16.04	10.99
Engineering products.....	1.4	(12.42)	(14.72)	(12.52)
Rubber products .....	1.3	(23.21)	11.79	11.47
Non-metallic mineral products ...	9.3	2.63	5.04	0.79
Wood products .....	1.5	(4.78)	(8.41)	(27.59)

(1) 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. Cotton 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 55 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. Value added textile exports to EU countries increased by 26 per cent in the period January through

August 2014 compared to the same period in the prior fiscal year. See “– *Structural Economic Reforms – Trade Reforms*”.

Positive growth has been recorded in the textile related sector of LSM of approximately 1.61 per cent in 2013-14, as compared to 1.32 per cent in 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	2013
	<i>(U.S.\$ billion)</i>				
World textile	211.1	252.4	294.2	284.1	305.9
World clothing	316.4	353.4	417.7	422.6	460.3
<b>Total</b>	<b>527.5</b>	<b>605.8</b>	<b>711.9</b>	<b>706.7</b>	<b>766.2</b>
Pakistan textile	6.5	7.8	9.1	8.7	9.3
Pakistan clothing	3.6	3.9	4.5	4.2	4.5
<b>Total</b>	<b>10.1</b>	<b>11.7</b>	<b>13.6</b>	<b>12.9</b>	<b>13.8</b>
% of World trade	1.9	1.9	1.9	1.8	1.8

Source: WTO (calendar year)

In 2013-14, textile exports from Pakistan were approximately U.S.\$14 billion.

### 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 Rupees 1,580.0 billion (2009-10 to 2013-14) paid out as a tariff differential subsidy, of which Rupees 342.0 billion was invested in public sector entities to reduce circular debt during 2012-13. 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 <sup>(1)</sup> .....	16,311	18,611	18,987	18,393	19,335
Peak supply .....	13,400	13,100	14,500	15,062	16,170

(1) 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 1,752 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 reduce circular debt on assuming office in 2013 and efforts (including reductions in transmission and distribution losses and increased collection of revenue) continued throughout the 2013-14 fiscal year and are continuing. To date, the Government has reduced the stock and build-up of circular debt significantly. Circular debt is currently estimated to be approximately Rupees 200 billion, comprising both current and overdue payments due to power



producers. Payments are being made by the Government monthly in line with its framework for managing the build-up of circular debt. The Government has added 1,752 MW of electricity to the national grid, easing load shedding considerably in Pakistan, but the overall efficiency of the energy system requires medium term investment and reform measures, both of which are ongoing.

**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 Certificates, 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

Project	Net Capacity (MW)	Source	Estimated Cost (U.S.\$ million)	Scheduled Completion
Uch II .....	404	Gas	Private investment	Completed
Khyal Khawar .....	126	Hydro-electric	125	Completed
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	Completed
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
<b>Total .....</b>	<b>15,012</b>			

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 added 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:

	2009-10	2010-11	2011-12	2012-13	2013-14 <sup>(2)</sup>
<b>Energy supply</b>					
MTOE .....	63.09	64.52	64.73	64.59	66.50
Change (%).....	0.83	2.27	0.32	(0.21)	3.03
<b>Per capita</b>					
Availability (TOE <sup>(1)</sup> ).....	0.36	0.36	0.36	0.35	0.35
Change (%).....	(5.26)	1.20	(1.68)	(2.07)	0.85

(1) Tons of oil equivalent.

(2) Estimated.

Source: Hydrocarbon Development Institute of Pakistan

The total primary commercial energy supply in 2013-14 was 66.5 MTOE. Oil comprised 34.4 per cent of energy supply during 2013-14, while gas comprised 46.4 per cent, liquid petroleum gas (LPG) 0.4 per cent, coal 5.4 per cent and electricity (hydel, nuclear and imported) comprised 13.4 per cent. During 2013-14, supplies of coal and gas decreased by 6.8 per cent and 0.8 per cent, respectively, compared to 2012-13, whereas the supply of oil and electricity increased by 9.3 per cent and 7.1 per cent, respectively, compared to 2012-13. Over the last 3 fiscal years, supplies of coal decreased by 17.3 per cent while gas supplies increased by 0.7 per cent.

Consumption of natural gas and coal declined during 2013-14 by 6.4 per cent and 4.6 per cent, respectively, compared to 2012-13, while consumption of petroleum products increased by 8.9 per cent over the same period. Energy supplies increased by 3.03 per cent in 2013-14 compared to 2012-13.

3,851 MW of electricity has been added to the system since 2008-09. Through independent power projects, a further 163 MW was added in 2013-14 whilst an expected 4,411 MW will be added by December 2020. Transmission and distribution losses decreased from 17.3 per cent in 2011-12, to 17.1 per cent in 2012-13 and continued to decline during 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 2013-14 were estimated at 1,117 million barrels. During 2013-14, average crude oil production per day increased to 86,533 barrels per day compared to 76,277 barrels per day in 2012-13 and 67,140 barrels per day in 2011-12. During 2013-14 overall production increased to 31.58 million barrels from 27.84 million barrels during 2012-13 and 24.57 million barrels in 2011-12.

In 2013-14, 54,152 (63 per cent) barrels per day were produced in the northern region and 32,381 (37 per cent) barrels per day were produced in the southern region, compared to 45,102 (59.1 per cent) barrels and 31,174 (40.9 per cent) barrels produced per day in the northern and southern region, respectively, in 2012-13. During 2013-14, production of crude oil in the northern region increased by 20.1 per cent, whereas production in the southern region increased by 3.9 per cent in each case as compared to 2012-13.

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

Region	2010-11	2011-12	2012-13	2013-14	2012-13/ 2013-14
<i>(Barrels of oil per day)</i>					<i>(% change)</i>
<b>Northern Region.....</b>	<b>35,367.74</b>	<b>40,632.04</b>	<b>45,102.63</b>	<b>54,152.01</b>	<b>20.1</b>
Dewan .....	207.38	188.14	167.51	135.73	(19.0)
OGDCL.....	18,568.47	21,914.35	24,470.67	27,461.48	12.2
OPII.....	680.38	869.74	632.76	616.28	(2.6)
POL.....	3,327.12	2,710.13	2,153.06	1,943.45	(9.7)
PPL.....	5,138.52	6,292.98	6,400.58	6,191.91	(3.3)
MOL.....	7,487.87	7,330.47	10,603.79	17,293.40	63.1
PCL .....	-	282.12	674.26	509.76	(24.4)
<b>Southern Region .....</b>	<b>30,498.44</b>	<b>26,508.13</b>	<b>31,174.00</b>	<b>32,381.49</b>	<b>3.9</b>
OGDCL.....	18,315.59	16,369.45	16,930.02	15,507.24	(8.4)
BP (Pakistan).....	8,362.90	6,977.04	11,621.39	13,464.17	15.9
PPL.....	1,140.31	365.28	166.70	227.94	36.7
BHP .....	2,169.09	2,228.62	1,954.44	1,392.94	(28.7)
OMV .....	52.16	45.70	39.71	45.57	14.8
ENI.....	332.98	332.60	319.67	352.79	10.4
MGCL.....	17.55	70.16	102.06	131.86	29.2
Petronas.....	107.86	65.27	40.01	1,258.98	3,046.7
<b>Total .....</b>	<b>65,866.18</b>	<b>67,140.16</b>	<b>76,276.64</b>	<b>86,533.50</b>	<b>13.4</b>

Source: Ministry of Petroleum and Natural Resources

**Natural Gas.** In 2013-14, recoverable natural gas reserves have been estimated at 55.8 trillion cubic feet. Average supply of natural gas during 2013-14 was almost 4,092 million cubic feet per day (**MMcfd**) compared to 4,126 MMcfd during 2012-13 and 4,259 MMcfd during 2011-12, a decrease of 0.8 per cent and a decrease of 3.1 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, gas was supplied to approximately 39,000 new consumers and approximately 350 new towns and villages were 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	2013-14	2012-13/2013-14
	(Million cubic feet per day)				(% change)
BHP.....	392.13	442.35	404.73	286.49	(29.2)
ENI.....	478.24	481.73	499.17	489.35	(2.0)
Dewan .....	28.56	26.47	23.18	18.31	(21.0)
MGCL.....	509.86	562.67	579.06	593.01	2.4
OGDCL.....	862.12	1,055.90	1,089.40	1,171.45	7.5
OMV .....	443.52	389.13	319.00	309.53	(3.0)
OPII.....	13.38	17.07	13.43	9.4	(30.0)
POL.....	21.23	19.44	14.79	14.68	(0.7)
PPL.....	760.36	770.40	707.69	647.8	(8.5)
Hycarbex .....	-	7.33	10.31	11.13	8.0
Tullow .....	0.38	-	-	-	-
PEL .....	26.87	24.26	21.50	19.54	(9.1)
BP (Pakistan).....	176.83	136.95	160.53	205.82	28.2
Petronas.....	13.24	12.59	9.23	17.85	93.4
MOL.....	305.04	313.15	273.55	287.23	5.0
POGC.....				10.21	
<b>Total .....</b>	<b>4,031.76</b>	<b>4,259.44</b>	<b>4,125.59</b>	<b>4,091.8</b>	<b>(0.82)</b>

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. Negotiations between Pakistan and Iran have been planned to resolve the situation in an amicable manner.

**LNG.** The Government has initiated extensive efforts to establish LNG terminals in Pakistan. The Ministry of Petroleum and National Resources is currently engaged in three proposals for infrastructure projects at Port Qasim, Karachi for the import of LNG to Pakistan. Recently an LNG terminal contract for the supply of 400 MMCFD of gas was executed and the Government is exploring the LNG market to obtain LNG at competitive prices. Several countries have been approached to supply LNG under Government arrangements and the Government is also exploring open competitive bidding.

It is expected that the first delivery of LNG will be received by Pakistan before the end of March 2015. The imported LNG will be used to offset more expensive imported oil, resulting in savings to the national exchequer.

Further projects for the establishment of additional LNG terminals are being planned. Discussions with both the Qatari government and a major energy company are currently underway with respect to the import of additional LNG. In October 2014, the Government approved the construction of a 700 km Gwadar-Nawabshah pipeline to transport LNG and an LNG terminal to be constructed at Gwadar with the capacity to handle 500 MMCFD per day of gas. This pipeline, once constructed, could also form part of the planned Iran-Pakistan gas pipeline project, should international sanctions against Iran be lifted in the future. See – “Iran-Pakistan Gas Pipeline Project”.

**LPG.** LPG contributes approximately 0.4 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 imported approximately 60,049 Mt of LPG during 2013-14 compared to 66,408 Mt during 2012-13 and 60,336 Mt during 2011-12.

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 2013-14, approximately 3.5 million vehicles in Pakistan were using CNG. There are approximately 3,300 CNG stations operating in 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 three million tons of coal a year is imported. During 2013-14, 6.6 million tons of coal were supplied to various sectors of the economy compared to 6.89 million tons during 2012-13, a decrease of 4.6 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.

**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 higher international commodity prices, particularly of oil. The current account balance has improved over the period 2010-11 through to 2013-14 as the deficit declined to 1.2 per cent of GDP. Despite this improvement, the overall balance of payments position of Pakistan did not improve significantly due to deterioration in its capital and financial accounts. 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 2013-14, Pakistan's external current account deficit was U.S.\$2.9 billion, considerably higher than the deficit of U.S.\$2.5 billion in 2012-13, principally due to lower inflows under the coalition support fund (CSF). Pakistan received CSF inflows of U.S.\$1.1 billion during 2013-14, compared to U.S.\$1.8 billion in 2012-13. Pakistan's capital and financial accounts had a surplus of U.S.\$7.0 billion in 2013-14.

The Government is committed to addressing Pakistan's balance of payments problem. Considerable foreign exchange inflows were received during 2013-14 and more are expected in 2014-15. These include the remaining amount of CSF, 3G/4G licence fee receipts, overdue proceeds from the privatisation of SOEs, the issue of the Certificates and additional inflows from bilateral and multilateral sources. See "*Public Debt*".

The payment of U.S.\$1,151.2 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 2013-14 was negative U.S.\$1,527.4 million, despite the receipt of U.S.\$1.7 billion under the new IMF programme. As scheduled repayments to the IMF declined throughout 2014-15, 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.\$13.5 billion as at 29 August 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 1.7 per cent of GDP at the end of 2013-14; and, increasing the export-to-GDP ratio (10.2 per cent at the end of 2013-14), 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:

	2009-10	2010-11	2011-12	2012-13	2013-14 <sup>(1)</sup>
	(U.S.\$ million)				
Trade balance .....	(11,536)	(10,516)	(15,765)	(15,431)	(16,635)
Export .....	19,673	25,356	24,696	24,795	25,151
Imports .....	31,209	35,872	40,461	40,226	41,786
Services balance (net).....	(1,690)	(1,940)	(3,192)	(1,472)	(2,534)
Receipts .....	5,229	5,768	5,035	6,733	5,257
Payments .....	6,919	7,708	8,227	8,205	7,791
Of which:					
Transport .....	3,577	4,072	3,510	3,291	3,805
Travel .....	879	972	1,367	1,233	1,059

	2009-10	2010-11	2011-12	2012-13	2013-14 <sup>(1)</sup>
Income account balance (net) .....	(3,282)	(3,017)	(3,245)	(3,685)	3,915
Current transfers (net).....	12,562	15,687	17,544	18,092	20,113
Of which workers' remittances	8,906	11,201	13,186	13,922	15,832
Current account .....	(3,946)	214	(4,658)	(2,496)	(2,971)
Capital account.....	175	161	183	264	1,833
Financial account.....	5,097	2,101	1,280	549	5,235
Direct investment (net) .....	2,075	1,591	744	1,258	1,483
Portfolio investment (net) .....	(65)	338	(144)	26	2,766
Other investment assets .....	(11)	(920)	9	(314)	297
Other investment liabilities ...	3,098	1,092	671	(421)	689
Net errors and omissions .....	(60)	16	(80)	(309)	(254)
Reserves and related items .....	(1,266)	(2,492)	3,275	1,992	(3,843)

(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:

	2009-10	2010-11	2011-12	2012-13	2013-14
	(% of GDP)				
Exports .....	10.9	11.6	10.5	10.5	10.2
Imports .....	19.6	18.9	20.0	17.0	16.9
Trade deficit .....	8.7	7.3	9.5	6.5	6.7
Worker's remittances .....	5.0	5.2	5.9	5.9	6.4
Current account balance .....	(2.2)	0.1	(2.1)	(1.1)	(1.2)

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 March 2015.

With respect to its trade regime, Pakistan has lowered its tariffs both on agricultural and non-agricultural goods. Pakistan has been supportive of the latest Agreement on Trade Facilitation which was concluded in December 2013.

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.\$25.1 billion in 2013-14 (growth of 2.7 per cent) compared to U.S.\$24.4 billion in 2012-13. The growth in exports was broadly based across most groups (textile and non-textile) with the textile and food groups contributing 54.7 per cent and 18.5 per cent, respectively, to overall exports growth during this period.

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

	2009-10	2010-11	2011-12	2012-13	2013-14	% Change 2012-13/ 2013-14	Absolute Change 2012-13/ 2013-14 (U.S.\$ million)	% Share
<i>(U.S.\$ million)</i>								
Food group .....	3,283.8	4,509.2	4,249.8	4,762.0	4,632.9	(2.7)	(129.1)	18.5
Textile manufacture .....	10,221.4	13,788.1	12,336.0	13,047.6	13,738.7	5.3	691.1	54.7
Petroleum group .....	1,033.7	1,352.5	903.1	27.9	721.4	2,485.7	693.5	2.9
Other manufactures .....	3,786.9	4,041.8	4,863.7	5,123.3	4,638.2	(9.5)	(484.9)	18.5
All other items .....	964.2	1,118.8	1,271.8	1,499.7	1,378.2	(8.1)	(121.5)	5.5
<b>Total .....</b>	<b>19,290.0</b>	<b>24,810.4</b>	<b>23,624.4</b>	<b>24,460.5</b>	<b>25,109.6</b>	<b>2.7</b>	<b>649.1</b>	<b>100</b>

(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	2009-10	2010-11	2011-12	2012-13	2013-14
<i>(U.S.\$ billion)</i>					
U.S. ....	3.36	3.96	3.53	3.53	3.71
China .....	1.15	1.63	2.18	3.58	3.57
United Arab Emirates .....	1.72	1.80	2.29	2.16	1.75
Afghanistan .....	1.57	2.33	2.25	2.10	1.87
United Kingdom .....	1.03	1.21	1.18	1.32	1.57
Germany .....	0.79	1.27	1.06	1.02	1.15
France .....	0.32	0.39	0.33	0.35	0.41
Bangladesh .....	0.48	1.01	0.63	0.71	0.70
Italy .....	0.61	0.79	0.58	0.56	0.74
Spain .....	0.43	0.57	0.49	0.55	0.70

Source: Pakistan Bureau of Statistics

**Imports.** Merchandise imports increased slightly to U.S.\$45.1 billion in 2013-14 compared to U.S.\$44.95 billion in 2012-13, offset by decreases in imports during 2013-14 in the telecom sector (a decrease of 10.0 per cent from U.S.\$1.40 billion in 2012-13 to U.S.\$1.3 billion in 2013-14), the food group (a decrease of 0.1 per cent), and in the petroleum group (a decrease of 0.9 per cent).

Pakistan imports significant amounts of crude oil from the United Arab Emirates (3.2 million Mt in 2013-14) and Saudi Arabia (3.7 million Mt in 2013-14) and imported a nominal amount from Singapore (0.7 million Mt in 2013-14). In 2012-13 it imported a small amount of crude oil from Thailand and a nominal amount from Iran, but none during 2013-2014 or subsequent thereto.

The following table sets out details of the composition of Pakistan's imports for the periods stated:<sup>(1)</sup>



	2009-10	2010-11	2011-12	2012-13(2)	2013-14(2)	% Change 2012-13/ 2013-14	Absolute Change 2012-13/ 2013-14 (U.S.\$ million)	% Share
(U.S.\$ million)								
Food group .....	3,575.2	5,086.4	5,035.2	4,187.8	4,182.6	(0.1)	(5.2)	9.3
Machinery group .....	5,027.8	5,275.0	5,635.6	5,705.3	6,441.0	12.9	735.7	14.3
Transport .....	1,940.2	2,245.9	2,228.9	2,436.8	2,178.1	(10.6)	(258.7)	4.83
Petroleum group .....	10,028.9	12,082.6	15,252.6	14,972.9	14,838.9	(0.9)	(134.0)	32.9
Textile group .....	1,854.1	2,883.1	2,398.2	2,611.6	2,708.1	3.7	96.5	6.0
Chemical group .....	5,868.1	6,178.8	7,143.4	6,416.3	6,705.8	4.5	289.5	14.8
Metal group .....	2,515.5	2,573.8	2,824.3	3,337.5	3,102.1	(7.1)	(235.4)	6.9
Miscellaneous .....	659.9	944.7	934.8	840.5	907.9	8.0	67.4	2.0
Other items .....	3,244.2	3,148.4	3,458.9	4,441.6	4,047.9	(8.9)	(393.7)	8.9
<b>Total .....</b>	<b>34,710.0</b>	<b>40,413.7</b>	<b>44,911.9</b>	<b>44,950.3</b>	<b>45,112.4</b>	<b>0.4</b>	<b>162.1</b>	<b>100.0</b>

(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.

(2) July through May.

Source: Pakistan Bureau of Statistics

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

Country	2009-10	2010-11	2011-12	2012-13(1)	2013-14(1)
(U.S.\$ billion)					
United Arab Emirates .....	5.02	5.43	7.68	7.96	6.54
China .....	4.41	5.79	6.72	5.97	6.83
Kuwait .....	2.40	3.33	4.00	3.67	3.10
Saudi Arabia .....	3.39	4.55	5.03	3.14	4.06
Malaysia .....	1.74	2.46	2.44	1.92	1.55
Japan .....	1.54	1.66	1.92	1.89	1.62
India .....	1.23	1.74	1.51	1.70	1.88
U.S. ....	1.61	1.81	1.48	1.49	1.64
Germany .....	1.81	0.94	1.12	1.18	1.12
Indonesia .....	0.64	0.80	1.16	1.22	1.35

Source: Pakistan Bureau of Statistics

(1) July through May

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 2013-14 this trade totalled approximately U.S.\$217.5 million, less than 0.3 per cent of Pakistan's total imports and exports in 2013-14, a position that is consistent with Pakistan sanctions-exempt trading 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 2009-10 to 2013-14. 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\$ 15.8 billion during 2013-14 compared to U.S.\$13.9 billion in 2012-13. The Government expects workers' remittances to exceed U.S.\$16.7 billion by the end of 2014-15.

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

	2009-10	2010-11	2011-12	2012-13	2013-14 <sup>(1)</sup>
<i>(U.S.\$ billion)</i>					
<b>Total .....</b>	<b>8.9</b>	<b>11.2</b>	<b>13.2</b>	<b>13.9</b>	<b>15.8</b>
U.S. ....	1.8	2.1	2.3	2.2	2.5
Saudi Arabia.....	1.8	2.7	3.7	4.1	4.7
UAE .....	2.0	2.6	2.8	2.8	3.1
Other Gulf Cooperation Council Countries .....	1.2	1.3	1.5	1.6	1.9
U.K.....	0.9	1.2	1.5	1.9	2.2
EU .....	0.3	0.4	0.4	0.4	0.4
Other Countries .....	0.8	1.0	1.0	1.0	1.1

(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 to U.S.\$2.3 billion in 2013-14 compared to U.S.\$1.6 billion in 2012-13. In particular, FDI in the communication sector has increased and was the main sector for FDI (attracting U.S.\$932.8 million inflows in 2013-14), followed by petroleum (U.S.\$490.0 million in 2013-14), the financial sector (U.S.\$238.0 million in 2013-14) and power (U.S.\$230.0 million in 2013-14).

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

	2009-10	2010-11	2011-12	2012-13	2013-14
<i>(U.S.\$ million)</i>					
<b>Foreign private investment .....</b>	<b>2,738.7</b>	<b>1,999.3</b>	<b>760.6</b>	<b>1,576.0</b>	<b>2,262.2</b>
Direct investment .....	2,150.8	1,634.7	820.6	1,456.5	1,631.3
Inflow .....	3,184.3	2,269.6	2,099.1	2,665.3	2,640.9
Outflow .....	1,033.5	634.8	1,278.4	1,208.9	1,009.6
Portfolio Investment .....	587.9	364.6	(60.0)	119.6	630.9
Equity securities .....	600.9	364.6	(60.0)	119.6	743.2
Debt securities .....	(13.0)				(112.2)
Convertible bonds of Pakistan .....	(13.0)				-
International bonds of PMCL .....	-				(112.2)
<b>Foreign public investment .....</b>	<b>(652.4)</b>	<b>(20.1)</b>	<b>(52.8)</b>	<b>4.6</b>	<b>2,115.2</b>
Portfolio investment .....	(652.4)	(20.1)	(52.8)	4.6	2,115.2
Equity securities .....					
Debt securities <sup>(1)</sup> .....	(652.4)	(20.1)	(52.8)	4.6	2,115.2
<b>Total .....</b>	<b>2,086.3</b>	<b>1,979.2</b>	<b>707.8</b>	<b>1,580.6</b>	<b>4,377.3</b>

(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:

	2010	2011	2012	2013	2014 <sup>(1)</sup>
<i>(U.S.\$ million)</i>					
Liquid Foreign Exchange Reserves .....	16,750.4	18,243.8	15,288.6	11,019.6	14,139.3
Gold reserves .....	2,575	3,117	3,311	2,469	2,726

(1) Provisional.

Source: State Bank of Pakistan

Total foreign exchange reserves were U.S.\$13.4 billion on 30 October 2014.

## 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 5.8 per cent in October 2014. During 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:

	2009-10	2010-11	2011-12	2012-13	2013-14
<b>Indices</b>					
General .....	128.85	146.45	162.57	174.53	189.58
Food .....	139.05	164.10	182.20	195.18	212.74
Non-food .....	122.74	135.87	150.80	162.16	175.69
Core <sup>(1)</sup> .....	119.87	131.16	145.03	158.96	171.82
<b>July% Change</b>					
General .....	10.1	13.7	11.0	7.4	8.6
Food .....	12.9	18.0	11.0	7.1	9.0
Non-food .....	8.3	10.7	11.0	7.5	8.3
Core <sup>(1)</sup> .....	7.6	9.4	10.6	9.6	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.

During 2013-14, monetary expansion decreased to 12.53 per cent from 15.91 per cent compared to 2012-13. 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.

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, March 2014 and July 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. In its 15 November 2014 monetary policy decision, the SBP decreased the base rate to 9.5 per cent due to an improved balance of payments position, a more favourable inflationary environment and the recent decreases in international oil prices.

Money supply grew by 14.2 per cent on average during 2011-12 to 2013-14 on account of growth in the Government's fiscal needs. Government borrowing from the banking system increased on average by 27.1 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 6.1 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.

	2009-10	2010-11	2011-12	2012-13	2013-2014 <sup>(1)</sup>
<i>(Stock, Rupees billion)</i>					
1. Currency issued .....	1,385.5	1,608.6	1,785.8	2,050.2	2,317.9
2. Currency held by SBP .....	2.5	2.4	2	1.1	0.5
3. Currency in title of Scheduled Banks	87.7	104.9	110.1	110.9	139.5
4. Currency circulation (1-2-3) .....	1,295.3	1,501.3	1,673.7	1,938.2	2,177.9
5. Other deposits with SBP .....	6.7	10.1	8.9	10.5	13.1
6. Scheduled banks' total deposits <sup>(2)</sup> .....	4,475.2	5,183.6	5,959.2	6,909.1	7,777.0
7. Resident foreign currency deposits (RFCD) .....	345.4	374.9	440.1	515	599.4
8. Monetary assets (4+5+6) .....	5,777.2	6,695.0	7,641.8	8,857.8	9,968.0
9. Growth rate (%) .....	12.5	15.9	14.1	15.9	12.5
1. Currency/money ratio .....	22.4	22.4	21.9	21.9	21.8
2. Demand deposits/money ratio .....	62.2	61.6	61.7	63.1	65.3
3. Time deposits/money ratio .....	9.3	10.2	10.6	9.1	6.7
4. Other deposits/money ratio .....	0.1	0.2	0.1	0.1	0.1
5. RFCD/money ratio .....	6	5.6	5.8	5.8	6.0
6. Income velocity <sup>(3)</sup> .....	2.7	2.9	2.8	2.8	2.7

(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 appreciated by 0.9 per cent against the U.S. dollar during 2013-14 as compared to 5.1 per cent depreciation in 2012-13 and 9.1 per cent depreciation in 2011-12.

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

Country	Currency	2009-10	2010-11	2011-12	2012-13	2013-2014
Australia.....	Dollar .....	74.06	85.12	92.08	99.39	94.44
Bangladesh.....	Taka.....	1.21	1.20	1.13	1.21	1.32
Canada.....	Dollar .....	79.51	85.73	89.03	96.39	96.15
China.....	Yuan.....	12.29	12.93	14.04	15.52	16.76
Hong Kong.....	Dollar .....	10.81	11.0	11.48	12.49	13.27
India.....	Rupee.....	1.80	1.89	1.79	1.77	1.67
Iran.....	Rial.....	0.01	0.01	-	-	-
Japan.....	Yen.....	0.92	1.03	1.14	1.11	1.02
Kuwait.....	Dinar.....	291.64	304.82	322.32	342.45	363.73
Malaysia.....	Ringgit.....	24.80	27.80	28.95	31.44	31.70
Nepal.....	Rupee.....	1.13	1.18	-	-	-
Norway.....	Krone.....	14.09	14.82	15.58	16.82	17.06
Singapore.....	Dollar .....	59.63	66.38	70.91	78.17	81.64
Sri Lanka.....	Rupee.....	0.73	0.77	0.76	0.75	0.79
Sweden.....	Krona.....	11.57	12.88	13.28	14.70	15.76
Switzerland.....	Franc.....	79.10	90.54	99.80	102.91	113.84
S.Arabia.....	Riyal.....	22.37	22.82	23.80	25.83	27.43
Thailand.....	Baht.....	2.53	2.79	-	-	3.21
UAE.....	Dirham.....	22.84	23.30	24.30	26.37	28.01
U.K.....	Pound.....	132.77	136.34	141.40	151.78	167.46
U.S.....	Dollar .....	83.89	85.56	89.27	96.85	102.88
EMU.....	Euro.....	116.88	117.14	119.59	125.38	139.63
IMF.....	SDR <sup>(1)</sup> .....	129.74	133.34	138.94	147.23	157.84

(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.

**2014-15 Budget.** The Pakistan 2014-15 budget, as published by the Finance Division of the Government of Pakistan on 3 June 2014, has the following main features:

- the total outlay for the budget 2014-15 is Rupees 4,302 billion. This is 7.9 per cent higher than the size of budget estimates for 2013-14;
- resource availability during 2014-15 has been estimated at Rupees 4,074 billion against Rupees 3,011 billion in the budget estimate of 2013-14;
- net revenue receipts for 2014-15 have been estimated at Rupees 2,225 billion, an increase of 16 per cent over the budget estimates of 2013-14;
- the provincial share of federal revenue receipts is estimated at Rupees 1,720 billion during 2014-15, which is 14.5 per cent higher than the budget estimates for 2013-14;
- net capital receipts for 2014-15 have been estimated at Rupees 691 billion against the budget estimates of Rupees 493 billion in 2013-14, an increase of 40 per cent;
- external receipts in 2014-15 are estimated at Rupees 869 billion, an increase of 50.7 per cent over budget estimates for 2013-14;
- overall expenditure during 2014-15 has been estimated at Rupees 4,302 billion of which current expenditure is Rupees 3,463 billion and development expenditure is Rupees 839 billion. Current expenditure shows an increase of approximately 8.3 per cent over the revised estimates of 2013-14, while development expenditure is budgeted to decrease by 2.4 per cent in 2014-15 over the revised estimates of 2013-14;
- the share of current expenditure in total budgetary outlay for 2014-15 is 80.5 per cent as compared to 78.8 per cent in revised estimates for 2013-14;
- expenditure on General Public Services (inclusive of debt servicing transfer payments and superannuation allowance) is estimated at Rupees 2,543 billion which is 73.4 per cent of the current expenditure;

- the size of the Public Sector Development Programme (**PSDP**) for 2014-15 is Rupees 1,175 billion as against Rupees 1,155 billion in 2013-14, and Rupees 162 billion has been allocated for other development expenditure;
- the provinces have been allocated an amount of Rupees 650 billion for budget estimates 2014-15 in their PSDP as against Rupees 615 billion in 2013-14; and
- Rupees 35 billion have been allocated to the Earthquake Reconstruction and Rehabilitation Authority (**ERRA**) in the PSDP 2014-15.

The main features of the 2014-15 budget are set out in the table below:

RECEIPTS		EXPENDITURE	
(Rupees billion)			
(a) Tax revenue <sup>(1)</sup> .....	3,129	A. CURRENT .....	3,130
(b) Non-tax revenue.....	816	Interest payment .....	1,325
Gross revenue receipts.....	3,945	Pension .....	215
Less provincial share .....	1,720	Defence affairs and services .....	700
		Grants and transfers .....	371
I. Net revenue receipts (a-b) .....	2,225	Subsidies.....	203
II. Net capital receipts (non bank) .....	686	Running of civil government .....	291
III. External receipts (net).....	508	Provision for pay and pension.....	25
IV. Estimated provincial surplus .....	289		
V. Bank borrowing.....	228	B. DEVELOPMENT .....	806
		Federal PSDP .....	525
		Other development expenditure .....	162
		Net lending .....	120
TOTAL RESOURCES (I to V) .....	3,936	TOTAL EXPENDITURE (A+B) .....	3,936

(1) Out of which the Federal Board of Revenue tax collection has been estimated at Rupees 2,810 billion.

Source: Ministry of Finance

The comparative position of 2013-14 (budget and revised) and 2014-15 (budget) is set out below:

	Budget 2013-14	Revised 2013-14	Budget 2014-15
(Rupees billion)			
<b>(i) RESOURCES (a + b).....</b>	<b>3,010</b>	<b>3,681</b>	<b>4,073</b>
<b>a. Internal resources.....</b>	<b>2,434</b>	<b>2,966</b>	<b>3,205</b>
Revenue receipts (Net) .....	1,917	2,183	2,225
Capital receipts (Net).....	493	600	690
Estimated provincial surplus.....	23	183	289
<b>b. External resources.....</b>	<b>576</b>	<b>714</b>	<b>868</b>
<b>(ii) EXPENDITURE .....</b>	<b>3,985</b>	<b>4,057</b>	<b>4,301</b>
Current expenditure <sup>(1)</sup> .....	3,196	3,198	3,463
Development expenditure ( <b>PSDP</b> ).....	789	858	838
Federal PSDP .....	540	425	525
Development loans and grants to provinces .....	77	144	151
Other development expenditure.....	171	289	161
<b>BANK BORROWING .....</b>	<b>974</b>	<b>376</b>	<b>227</b>
<b>REPAYMENT OF FOREIGN LOANS.....</b>	<b>2,829</b>	<b>2,935</b>	<b>3,130</b>

(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 2013-14:

	2011-12	2012-13	2013-14	% change 2012-13/ 2013-14	Budget Estimate 2014-15
	<i>(Rupees billion)</i>			<i>(%)</i>	<i>(Rupees billion)</i>
<b>A. Total revenue .....</b>	<b>2,566.5</b>	<b>2,982.4</b>	<b>3,637.3</b>	<b>22.0</b>	4,220.6
(a) Tax revenue.....	2,052.9	2,199.2	2,564.5	16.6	3,145.8
Federal.....	1,945.7	2,048.5	2,374.5	15.9	2,937.8
of which FBR revenue.....	1,881.5	1,936.1	2,266.3	17.1	2,810.0
Provincial tax revenue .....	107.2	150.7	190.0	26.0	208.0
(b) Non-tax revenue.....	513.6	783.2	1,072.8	37.0	1,074.7
<b>B. Total expenditure.....</b>	<b>4,326.0</b>	<b>4,816.3</b>	<b>5,026.0</b>	<b>4.4</b>	5,642.4
(a) Current expenditure.....	3,512.5	3,660.4	4,004.6	9.4	4,462.3
Federal.....	2,543.7	2,565.2	2,831.2	10.4	3,097.3
Interest.....	889.0	991.0	1,147.8	15.8	1,325.2
Defence.....	507.2	540.6	623.1	15.3	700.1
Provincial .....	967.8	1,095.2	1,173.3	7.1	1,365.0
(b) Development expenditure and net lending.....	743.9	1,139.9	1,236.5	8.5	1,180.1
PSDP .....	664.8	695.1	865.5	24.5	1,010.9
Other Development.....	67.1	82.0	270.5	229.8	161.8
Net lending .....	12.0	362.8	100.6	(72.3)	7.3
(d) Unidentified expenditure .....	69.8	16.0	(215.0)	(1,445.4)	-
<b>C. Overall fiscal deficit.....</b>	<b>(1,760.0)</b>	<b>(1,833.9)</b>	<b>(1,388.7)</b>	<b>(24.3)</b>	(1,421.8)
As % of GDP.....	8.8 <sup>(1)</sup>	8.2	5.5	(33.0)	4.9
Financing of fiscal deficit.....	1,760.0	1,833.9	1,388.7	(24.3)	1,421.8
(i) External sources .....	129.0	(1.7)	511.7	(30,632.6)	508.0
(ii) Domestic sources .....	1,631.0	1,835.5	877.0	(52.2)	913.9
- Bank.....	1,106.0	1,457.5	323.7	(77.8)	227.9
- Non-bank.....	529.4	378.0	553.3	46.4	686.0
GDP at market price .....	20,091	22,489	25,402.0	13.0	29,078.0

(1) Includes 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 5.5 per cent of GDP in 2013-14 compared to 8.2 per cent of GDP in 2012-13.

**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;
- improve anti-money laundering rules to reduce tax evasion;
- implement a sales tax collection scheme; and
- incentivise tax filers.

The FBR tax collection target for 2013-14 was set at Rupees 2,475 billion, and assumed higher economic growth and the tax administration reforms set forth above. The FBR's revenue collection in 2013-14 was Rupees 2,266.3 billion, constituting 16.4 per cent growth compared to the Rupees 1,946.4 billion collected during 2012-13.

The gross collection of direct taxes grew by 18.9 per cent in 2013-14 compared to 2012-13. Major revenue sources for direct taxes are income tax, capital value tax and withholding tax, voluntary payments and collection on demand. During 2013-14, gross collection of indirect taxes grew by 14.9 per cent compared to 2012-13 and accounted for 60.9 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 further increased 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 reduced to 42.5 per cent for 2013-14 onwards. According to the current seventh NFC Award, transfers to provinces increased to Rupees 1,413 billion in 2013-14 compared to the transfer of Rupees 1,077 billion in 2012-13 and the transfer of Rupees 710.6 billion in 2011-12. Transfers to provinces are estimated to increase to Rupee 1,720 billion in 2014-15 reflecting a 21.7 per cent increase compared to 2013-14.

**Expenditure.** Total expenditure (TE) was Rupees 5,026.0 billion, or 19.8 per cent of GDP, in 2013-14 compared to Rupees 4,816.3 billion, or 21.4 per cent of GDP, in 2012-13. 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 10 per cent in 2013-14 compared to 2012-13), mainly due to the impact of higher salaries and allowances for federal Government employees and increased development expenditure.

Current expenditure (CE) during 2013-14 exceeded the level of CE during 2012-13 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 2013-14. Consequently, CE remained at 15.8 per cent of GDP in 2013-14 compared to 16.3 per cent in 2012-13. In order to meet the fiscal target for 2014-15, development spending is expected to remain at 4.1 per cent of GDP.

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

	2009-10	2010-11	2011-12	2012-13	2013-14
Real GDP growth.....	2.6	3.6	3.8	3.7	4.1
Overall fiscal deficit.....	6.3	6.6	8.8	8.2	5.5
<b>Expenditure</b>					
Total.....	20.2	18.9	19.6	21.4	19.8
Current.....	16.0	15.9	15.6	16.3	15.8
Development and net lending.....	4.4	2.8	3.6	5.1	4.9
<b>Revenue</b>					
Total.....	14.0	12.3	12.8	13.3	14.3
Tax.....	10.0	9.3	10.2	9.8	10.1
Non-tax.....	4.1	3.0	2.6	3.5	4.2

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 30 June 2014, domestic debt was approximately Rupees 10,915 billion (43.0 per cent of GDP) and external debt was approximately U.S.\$51.1 billion. Given the relatively short maturity structure of domestic borrowing, comprised of Rupees 4,877 billion (44.7 per cent of total domestic debt) having a maturity of less than one year and Rupees 2,603 billion of domestic debt (23.8 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 2013-14, the Government issued Rupees 1,171 billion with a maturity of three years, Rupees 426 billion with a maturity of five years, Rupees 421 billion with a maturity of ten years and Rupees 20 billion 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 30 June 2014 was Rupees 15,961 billion, representing an increase of Rupees 1,595 billion, or 11 per cent, against TPD as of 30 June 2013, principally due to an increase in domestic debt used to finance the fiscal deficit. The external debt component increased in 2013-14 as a result of U.S.\$1.7 billion inflows from the Extended Fund Facility, an increase in loan disbursement from IFIs and the issuance of Eurobonds in April 2014.

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 62.8 per cent of GDP on 30 June 2014, which was over the FRDL Act's threshold, although lower than the 63.9 per cent of GDP as at 30 June 2013 principally due to lower fiscal deficit compared with the last fiscal year. 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.

During 2013-14, public debt servicing was Rupees 1,460 billion against the budgeted estimate of Rupees 1,561 billion and consumed approximately 40.1 per cent of government revenues.

The following table sets for the composition of Pakistan's TPD as at 30 June for the periods stated:

	2009-10	2010-11	2011-12	2012-13	2013-14 <sup>(1)</sup>
<b>(Rupees billion)</b>					
Domestic debt.....	4,651	6,016	7,637	9,517	10,915
External debt .....	4,260	4,685	5,016	4,849	5,046
<b>Total public debt.....</b>	<b>8,911</b>	<b>10,700</b>	<b>12,653</b>	<b>14,366</b>	<b>15,961</b>
<b>(% of GDP)</b>					
Domestic debt.....	31.3	32.9	38.0	42.3	43.0
External debt .....	28.7	25.6	25.0	21.6	19.9
<b>Total public debt.....</b>	<b>59.9</b>	<b>58.5</b>	<b>63.1</b>	<b>63.9</b>	<b>62.8</b>
<b>(% of revenues)</b>					
Domestic debt.....	223.8	267.0	297.6	319.1	300.1
External debt .....	205.0	208.0	195.4	162.6	138.7
<b>Total public debt.....</b>	<b>428.8</b>	<b>475.0</b>	<b>493.0</b>	<b>481.7</b>	<b>438.8</b>
<b>(% of total debt)</b>					
Domestic debt.....	52.2	56.2	60.4	66.2	68.4
External debt .....	47.8	43.8	39.6	33.8	31.6
Foreign currency debt (U.S.\$ billion)	49.8	54.5	53.1	48.7	51.1
Exchange rate (Rupees/U.S.\$ at end of period).....	85.5	86.0	94.5	99.7	98.8
GDP (Rupees billion) .....	14,867	18,276	20,047	22,489	25,402
Total revenue (Rupees billion).....	2,078	2,253	2,567	2,982	3,637

(1) 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 government borrowings.

Pakistan's domestic debt increased by Rupees 1,398 billion to Rupees 10,915 billion, or 43.0 per cent of GDP, at 30 June 2014, compared with 42.3 per cent at 30 June 2013. In 2013-14, Government long term domestic borrowing increased, which reduced its exposure to refinancing and interest rate risk. Accordingly, the volume of floating debt (short term treasury bills) reduced to Rupees 4,611 billion, or 28.9 per cent of TPD, in 2013-14 compared with Rupees 5,196 billion or 36.2 per cent of TPD in 2012-13.

The following table provides a summary of outstanding domestic debt as at 30 June for the periods stated:

	2009-10	2010-11	2011-12	2012-13	2013-14 <sup>(1)</sup>
<b>(Rupees billion)</b>					
Permanent debt <sup>(2)</sup> .....	794.8	1,124.4	1,695.9	2,174.7	4,000.7
Floating debt <sup>(3)</sup> .....	2,399.1	3,235.4	4,143.1	5,196.2	4,610.9
Unfunded debt <sup>(4)</sup> .....	1,457.5	1,655.8	1,798.0	2,146.5	2,303.8
<b>Total .....</b>	<b>4,651.4</b>	<b>6,015.5</b>	<b>7,637.0</b>	<b>9,517.4</b>	<b>10,915.4</b>
<b>(% of GDP)</b>					
Permanent debt <sup>(2)</sup> .....	5.3	6.2	8.5	9.7	15.7
Floating debt <sup>(3)</sup> .....	16.1	17.7	20.7	23.1	18.2
Unfunded debt <sup>(4)</sup> .....	9.8	9.1	9.0	9.5	9.1
<b>Total .....</b>	<b>31.3</b>	<b>32.9</b>	<b>38.1</b>	<b>42.3</b>	<b>43.0</b>
<b>(% of Total Domestic Debt)</b>					
Permanent debt <sup>(2)</sup> .....	17.1	18.7	22.2	22.9	36.7
Floating debt <sup>(3)</sup> .....	51.6	53.8	54.3	54.6	42.2
Unfunded debt <sup>(4)</sup> .....	31.3	27.5	23.5	22.6	21.1
<b>GDP at market price (Rupees billion).....</b>	<b>14,867.0</b>	<b>18,276.4</b>	<b>20,046.5</b>	<b>22,489.1</b>	<b>25,401.9</b>

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

(2) 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 37 per cent of Pakistan's total domestic debt in 2013-14 and 23 per cent in 2012-13.

(3) 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 (15 per cent of current treasury bills), six months (37 per cent of treasury bills) and 12 months (48 per cent of treasury bills) as at 30 June 2014. 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 42 per cent of Pakistan's total domestic debt in as at 30 June 2014 and 55 per cent as at 30 June 2013.

(4) 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 2013-14, unfunded debt comprised 21 per cent of domestic debt, while floating debt comprised 42 per cent of domestic debt. The average maturity of domestic debt in 2013-14 improved to 2.3 years compared with 1.8 years in 2012-13 with 45 per cent of domestic debt had a maturity of less than a year. This exposes Pakistan to refinancing risks as the redemption profile on its floating domestic debt is front-loaded and, accordingly, increases in interest rates may 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:

		2009-10	2010-11	2011-12	2012-13	2013-14 <sup>(1)</sup>
Domestic outstanding debt.....	<i>(Rupees billion)</i>	4,651.4	6,015.5	7,637.0	9,517.4	10,915.4
Interest payments.....		578.3	629.7	821.1	920.4	1,072.8
Tax revenue.....		39.3	37.1	40.0	41.8	41.8
Total revenue.....		27.8	28.0	32.0	30.9	29.5
Total expenditure.....	<i>(Domestic interest payment in % of)</i>	19.2	18.3	20.9	19.1	21.3
Current expenditure.....		24.2	21.7	26.3	25.1	26.8
GDP.....		3.9	3.4	4.1	4.1	4.2

(1) 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**) represent a charge on Pakistan's revenues as well as a charge on its balance of payments. EDL include all foreign currency debt contracted by the public and private sector, as well as foreign exchange liabilities of the SBP. EDL is serviced from foreign exchange earnings, drawdowns from reserves and additional borrowings. As at 30 June 2014, EDL was dominated by Public and Publically Guaranteed (**PPG**) debt, comprising 75 per cent of all EDL. This debt was principally obtained from multilateral and bilateral counterparties. Debt obligations of the private sector in 2013-14 were limited and constituted only 4.5 per cent of EDL. Borrowing from the IMF contributed 5 per cent in EDL in 2013-14, compared with 7 per cent at 30 June 2013 owing to significant repayment during 2013-14.

External loans are contracted by Pakistan in various currencies and disbursements are 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 3.8 per cent per annum for 2009-10 to 2013-14, 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 5.3 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:

	2009-10	2010-11	2011-12	2012-13	2013-14 <sup>(1)</sup>
<i>(U.S.\$ billion)</i>					
1. Public and publicly guaranteed (PPG) debt .....	43.1	46.5	46.4	44.4	49.0
.....					
.....					
(a) Medium and long term (>1 year) .....	42.1	45.7	45.6	43.5	47.8
(b) Short term (<1 year) .....	0.9	0.6	0.5	0.0	0.7
2. Private Sector Debt .....	3.8	4.4	3.6	3.1	2.9
3. Public sector non-guaranteed enterprises (PSEs' debt) .....	1.4	1.3	1.3	1.2	1.6
4. IMF .....	8.1	8.9	7.3	4.4	3.0
5. Banks .....	0.7	1.1	1.8	1.6	2.0
6. Debt liabilities to direct investors - intercompany debt .....	1.9	1.6	2.7	3.1	3.7
<b>Total external debt (1 through 6) .....</b>	<b>59.0</b>	<b>63.8</b>	<b>63.1</b>	<b>57.8</b>	<b>62.3</b>
7. Foreign exchange liabilities .....	2.6	2.6	2.4	3.1	3.3
<b>Total external debt and liabilities (1 through 7) .....</b>	<b>61.6</b>	<b>66.4</b>	<b>65.5</b>	<b>60.9</b>	<b>65.5</b>
(of which) public debt .....	49.8	54.5	53.1	48.7	51.1
Official liquid reserves .....	13.0	14.8	10.9	6.0	9.1
<i>(% of GDP)</i>					
<b>Total external debt (1 through 6) .....</b>	<b>33.2</b>	<b>29.8</b>	<b>28.1</b>	<b>24.7</b>	<b>25.2</b>
1. Public and publicly guaranteed (PPG) debt .....	24.3	21.7	20.6	19.0	19.8
.....					
.....					
(a) Medium and long term (>1 year) .....	23.7	21.4	20.3	18.6	19.4
b) Short Term (<1 year) .....	0.5	0.3	0.2	0.0	0.3
2. Private sector debt (>1 year) .....	2.1	2.0	1.6	1.3	1.2
3. Public sector enterprises (PSEs' debt) .....	0.8	0.6	0.6	0.5	0.7
4. IMF .....	4.6	4.2	3.3	1.9	1.2
5. Banks .....	0.4	0.5	0.8	0.7	0.8
6. Debt liabilities to direct investors – intercompany debt .....	1.1	0.8	1.2	1.3	1.5



	2009-10	2010-11	2011-12	2012-13	2013-14 <sup>(1)</sup>
7. Foreign exchange liabilities.....	1.5	1.2	1.1	1.3	1.3
<b>Total external debt and liabilities (1 through 7).....</b>	<b>34.7</b>	<b>31.0</b>	<b>29.2</b>	<b>26.1</b>	<b>26.5</b>
Official liquid reserves .....	7.3	6.9	4.8	2.6	3.7
<b>Notes:</b>					
<b>GDP (Rupees billion)</b>	<b>14,867</b>	<b>18,276</b>	<b>20,047</b>	<b>22,489</b>	<b>25,402</b>
Exchange Rate (Rupees/U.S.\$, period average) .....	83.9	85.5	89.2	96.2	102.9
Exchange Rate (Rupees/U.S.\$, end of June).....	85.5	86.0	94.5	99.7	98.8
GDP (U.S.\$ billion).....	177.2	213.9	225.1	233.8	246.9

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

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 7.2 per cent during 2013-14, principally due to repayments of approximately U.S.\$3.2 billion of IMF loans. Total EDL servicing was U.S.\$7.7 billion in 2013-14. U.S.\$6.1 billion was applied to the repayment of maturing EDL stock while interest payments accounted for U.S.\$910 million and U.S.\$700 million was rolled-over. 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	2014-15 <sup>(1)</sup>	2015-16 <sup>(1)</sup>	2016-17 <sup>(1)</sup>	2017-18 <sup>(1)</sup>	2018-22 <sup>(1)</sup>
<b>(U.S.\$ million)</b>					
<b>Bilateral</b>					
Principal .....	1,562.4	562.0	762.6	1,029.7	5,236.3
Interest.....	406.7	399.3	382.9	361.0	1,140.8
Sub-total.....	1,969.1	961.3	1,145.5	1,390.7	6,377.1
<b>Multilateral</b>					
Principal .....	1,901.4	1,520.0	1,391.8	1,437.7	5,799.7
Interest.....	364.7	310.1	289.8	269.8	870.0
Sub-total.....	2,266.1	1,830.1	1,681.6	1,707.5	6,669.7
<b>IMF<sup>(3)</sup></b>					
Principal .....	591.0	56.4	-	45.6	91.2 <sup>(2)</sup>
Interest.....	5.6	7.1	6.7	6.6	6.1 <sup>(2)</sup>
Sub-total.....	596.6	63.5	6.7	52.2	97.3 <sup>(2)</sup>
<b>Bonds</b>					
Principal .....	-	500.0	750.0	-	1,000.0
Interest.....	267.1	268.4	232.3	180.8	502.8
Sub-total.....	267.1	768.4	982.3	180.8	1,502.8
<b>Total</b>					

(1) Projected.

(2) Only 2018-19.

(3) Figures of the IMF are based against the budgetary support

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 June 2014, the Government had entered into guarantees totalling Rupees 555 billion, 77 per cent of which were denominated in Rupees. In addition, it entered into counter-guarantees in commodity financing operations of Rupees 605 billion as of 30 June 2014.

Annual debt obligations have increased since 2008-09 and totalled U.S.\$7,699 million in 2013-14. U.S.\$1,531 million of multilateral debt, together with U.S.\$3,182 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.\$65.5 billion as at 30 June 2014, out of which public external debt amounted to U.S.\$51.1 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 2013-14, Pakistan's external debt recorded a translational loss of U.S.\$459 million due to cross-currency movement against U.S. dollar.

Pakistan has issued bonds in the international capital markets. It has four 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; (iii) U.S.\$300 million 7.875 per cent due 31 March 2036; (iv) U.S.\$1 billion 7.25 per cent due 2019 and U.S.\$1 billion 8.25 per cent due 2024.

**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 2013-14, 52.8 per cent of its PPG external debt obligations were with multilateral creditors, while 38.1 per cent were with bilateral creditors and 7.5 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.\$2.1 billion in four 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 fourth tranche of SDR 360 million (approximately U.S.\$555.9 million) was made available to Pakistan in July 2014 following the IMF's third review of Pakistan's economic performance. The IMF has performed three quarterly reviews of the Pakistan economy since the Government came to office in May 2013, publishing its revised reports in January, March 2014 and July 2014 respectively. Pakistan either met, or the IMF waived, all required criteria for the release of the first, second, third and fourth tranches under the Extended Fund Facility. The IMF's fourth and fifth quarterly reviews of Pakistan's economy have been combined and are currently underway. The IMF expects to publish its next report in December 2014.

**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.\$761.8 million, of which U.S.\$560.2 million is to be disbursed over the next four years. The loans carry interest of 6-month LIBOR plus up to 1.00 per cent per annum and have an average maturity of 20 years, including grace periods (during which only interest is paid). As at 30 June 2014, U.S.\$1.37 billion was outstanding to the IBRD. The International Development Association (**IDA**) has extended loans worth U.S.\$3.0 billion, of which U.S.\$1.4 billion has been disbursed. The balance of U.S.\$1.7 billion is to be disbursed over the next four years. The loans carry interest of 1.25 per cent per annum and have an average maturity of 25 years, including grace periods of 5 years. As at 30 June 2014, U.S.\$12.7 billion was outstanding to the IDA. In addition, the Government has signed budgetary support with the IBRD for a loan of U.S.\$600 million for a power sector reform programme, and another U.S.\$400 million loan for a growth, investment and competitiveness programme. 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.\$1,350.8 million are currently in place through ADF, of which U.S.\$536.5 million has been disbursed. The balance of U.S.\$814.3 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 U.S.\$3.7 billion, of which U.S.\$2.5 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). These loans include U.S.\$900 million (U.S.\$870 million OCR and U.S.\$30 million ADF) for the Jamshoro Power Generation Project which is expected to be disbursed over the next two years. In addition, in April 2014 the ADB approved a U.S.\$400 million loan for the Government's power sector reform programme which was signed on the 28 April 2014 and fully disbursed during June 2014. As at 30 June 2014, U.S.\$10.7 billion of debt was outstanding to the ADB. The Government and ADB are currently in negotiations for additional financing to support the medium term reform agenda the Government has agreed with the IMF.

**Islamic Development Bank.** Total debt outstanding to IDB comprises U.S.\$796 million in medium term and long term financing, and U.S.\$410 million in short term financing. Total grants received by Pakistan from IDB amount to U.S.\$10.85 million. IDB is currently implementing a three year partnership strategy with Pakistan with the provision of up to U.S.\$3 billion regarding MCPS for Pakistan (2012-2015).

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

- **China.** At present, Pakistan has nine loan agreements with China for public sector projects totalling U.S.\$9.7 billion, out of which an amount of U.S.\$2.1 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. Negotiations are underway for a number of other loans of around U.S.\$333 million. Pakistan and China are also considering the implementation of a large number of projects in energy and infrastructure. Since 2006, China has provided grants of U.S.\$440.4 million. Of this, U.S.\$333.7 million has been utilised on various projects and relief items.
- **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 to Pakistan of €279 million, of which U.S.\$75 million has been disbursed. As of 30 June 2014, U.S.\$2.1 billion 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.\$1.3 billion, under which U.S.\$224.5 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 has provided U.S.\$50 million in loans for energy sector reform programs, which amount has been fully disbursed by 30 June 2014.
- **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.\$342 million as of 30 June 2014.
- **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 £ 981.9 million of which £700.7

million has been disbursed, making Pakistan the largest recipient of the U.K.'s development assistance in the world. As of 30 June 2014, 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 Pakistan with U.S.\$7.5 billion (U.S.\$1.5 billion each year) between 2010 and 2014 in the form of non-repayable grants. Sectors which benefit from the assistance include energy security, food security, social development and affected areas. As of 30 June 2014, U.S.\$1.4 billion of debt was outstanding to the U.S.

Other sources of bilateral financing include 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.

## TAXATION

*The following summary of certain United States, European Union and Pakistani tax consequences of ownership of Certificates 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 Certificates. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of Certificates. 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 Certificates, 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 Federal Income Tax Considerations

The following summary describes certain material U.S. federal income tax considerations of the ownership and disposition of Certificates that may be relevant to a U.S. Holder (as defined below). This summary applies only to U.S. Holders that purchase Certificates for cash at original issuance at the initial issue price and that will hold Certificates as capital assets. This summary is based on the provisions of the U.S. Internal Revenue Code of 1986, as amended (the **Code**), and administrative and judicial interpretations of the Code and U.S. Treasury Regulations, all as in effect as of the date of this summary, and all of which are subject to change, possibly with retroactive effect, which could affect the consequences described below. This summary has no binding effect or official status of any kind, and we cannot assure U.S. Holders that the conclusions reached below would be sustained by a court if challenged.

For purposes of this discussion, a **U.S. Holder** is a holder of Certificates that is a beneficial owner of such Certificates and is:

- a U.S. citizen;
- an individual resident in the United States for U.S. federal income tax purposes;
- a domestic corporation, or other entity taxable as a corporation, organised under the laws of the United States or of any U.S. state or the District of Columbia;
- an estate the income of which is includible in its gross income for U.S. federal income tax purposes without regard to its source; or
- a trust, if either: a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all the substantial decisions of the trust, or the trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

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 particular circumstances, or to U.S. Holders subject to special rules, including, without limitation:

- retirement plans;
- insurance companies;
- persons that hold Certificates as part of a “straddle,” “synthetic security,” “hedge,” “conversion transaction” or other integrated investment;

- persons that enter into “constructive sales” involving Certificates or substantially identical property with other transactions;
- persons whose functional currency is not the U.S. Dollar;
- expatriates or former long-term residents of the U.S.;
- U.S. branch operations of foreign corporations;
- banks or financial institutions;
- dealers or traders in securities or currencies;
- tax-exempt organisations;
- persons subject to the alternative minimum tax;
- regulated investment companies;
- real estate investment trusts; and
- persons subject to the mark-to-market rules.

In addition, this summary does not address the effect of any applicable U.S. state or local tax laws or any federal estate, gift or alternative minimum tax consequences, or any consequences arising under the laws of any taxing jurisdiction other than the U.S. This summary also does not consider the tax treatment of persons who own Certificates through a partnership or other pass-through entity. If a partnership (including for this purpose, any entity treated as a partnership for U.S. federal income tax purposes) holds Certificates, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. If a U.S. Holder is a partner in a partnership that holds Certificates, such holder is urged to consult its own tax adviser regarding the specific tax consequences of the ownership and disposition of Certificates.

No ruling is being requested from the U.S. Internal Revenue Service (the **IRS**) and no legal opinion is being given regarding the tax consequences of investing in the Certificates and no assurance can be given that the IRS or the courts will agree with the discussions set forth herein. Investors should consult their own tax advisers in determining the tax consequences to them of holding Certificates, including the application to their particular situation of the U.S. federal income tax considerations discussed below, as well as the application of state, local, foreign or other tax laws.

## **Overview**

The Issuer intends to treat the Trust as a mere agency or security device which is disregarded for U.S. tax purposes, and to treat the Certificates under the rules applicable to debt instruments for U.S. tax purposes. Under this characterisation, U.S. Holders will be subject to U.S. federal income taxation as if they owned debt instruments instead of Certificates in the Trust, and will not be required to take account of income and expenses incurred at the level of the Trust. It is expected, and this summary assumes, that the Certificates will not be issued at more than a *de minimis* discount for U.S. federal income tax purposes.

## **Periodic Distribution Amounts**

Taxation of the Certificates under the U.S. tax rules applicable to debt instruments means that Periodic Distribution Amounts will be treated for U.S. tax purposes as payments of interest. Accordingly, a U.S. Holder will be required to include Periodic Distribution Amounts in its income as ordinary income at the time that such distributions are accrued or are received (in accordance with the holder’s method of

tax accounting). Such income will be treated as foreign source income for purposes of calculating that U.S. Holder's foreign tax credit limitation. The limitation on foreign taxes eligible for foreign tax credit is calculated separately with respect to specific classes of income. For this purpose, such income should generally constitute "passive income." Any foreign income taxes withheld from payments of Periodic Distribution Amounts will be included in the income of U.S. Holders as ordinary income and will likewise be deductible to U.S. Holders, or, alternatively, U.S. Holders may be eligible for a U.S. foreign tax credit subject to various limitations. The rules relating to foreign tax credits are extremely complex. U.S. Holders should consult their own tax advisers regarding the availability of a foreign tax credit and the application of the foreign tax credit rules to their particular circumstances.

### **Sale, Exchange or Retirement of Certificates**

A U.S. Holder's tax basis in a Certificate generally will equal the U.S. dollar cost of such Certificate to such holder. Upon the sale, exchange or retirement of a Certificate, a U.S. Holder generally will recognise gain or loss equal to the difference between the amount realised on the sale, exchange or retirement (less any amounts in respect of accrued Periodic Distribution Amounts, which will be taxable as ordinary income) and the holder's tax basis in such Certificate.

Any gain or loss recognised by a U.S. Holder on the sale, exchange or retirement of a Certificate generally will be U.S. source capital gain or loss. For U.S. Holders who are individuals, trusts or estates, which hold the Certificates for more than one year, capital gains may be taxed at lower rates than ordinary income. The deductibility of capital losses is subject to certain limitations.

### **Potential Alternative Characterisation**

The Issuer believes that it is appropriate to treat the Certificates as representing debt obligations of the Obligor and intends to do so. However, the IRS may seek to characterise the Certificates as interests in a grantor trust for U.S. federal income tax purposes. Under this characterisation, while the taxation of the income, gain or loss attributable to the Certificates would be essentially the same as the consequences described above, the Issuer and U.S. Holders would be subject to certain information reporting applicable to foreign trusts. U.S. Holders that fail to comply with these information reporting requirements in a timely manner could be subject to significant penalties, including a penalty of up to 35 per cent of the amount paid for a Certificate and 35 per cent of distributions received from the Issuer. Moreover, a U.S. Holder that fails to file the appropriate information return within 90 days after the date on which the IRS mails notice of such failure to the holder may be liable for a penalty (in addition to the penalty described in the preceding sentence) of U.S.\$10,000 for each 30-day period (or fraction thereof) during which such failure continues after the expiration of such 90-day period. A U.S. Holder could also be liable for penalties equal to 5 per cent of the gross value of the portion of the trust owned by a U.S. Holder at the close of the year, if the Issuer failed to file a U.S. annual information return and provide each U.S. Holder with a foreign grantor trust owner statement. Similar penalties would be applicable to the Issuer for failure to comply. The Issuer does not expect that it will provide information that would allow either itself or U.S. Holders to comply with foreign trust reporting obligations if they were determined to be applicable. U.S. Holders should consult their own tax advisers as to the potential application of the foreign trust reporting rules and the tax consequences generally with respect to an investment in the Certificates.

### **Information Reporting and Backup Withholding**

Payments of Periodic Distribution Amounts and other proceeds made to certain U.S. Holders of Certificates by a U.S. paying agent or other U.S.-related financial intermediary in respect of Certificates may be subject to information reporting. In addition, a U.S. Holder may be subject to 28 per cent backup withholding tax in respect of such payments if such holder fails to provide its taxpayer identification number, to certify that such U.S. Holder is not subject to backup withholding, or otherwise to comply with the applicable requirements of the backup withholding rules. Persons holding Certificates who are not U.S. Holders may be required to comply with applicable certification procedures to establish that they are not U.S. Holders in order to avoid the application of such



information reporting requirements and backup withholding tax in respect of payments made in the United States or through a U.S.-related financial intermediary. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a holder of Certificates generally may be claimed as a credit against such holder's U.S. federal income tax liability provided that the required information is furnished to the IRS. Holders of Certificates should consult their own tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption. Additionally, individual U.S. Holders may be required to report to the IRS certain information with respect to their beneficial ownership of the Certificates. Investors who fail to report required information could be subject to substantial penalties.

### **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, is subject to a 3.8 per cent tax on the lesser of (1) such U.S. Holder's "net investment income" (or undistributed "net investment income" in the case of estates and trusts) for the relevant taxable year and (2) the excess of such U.S. Holder's modified adjusted gross income for the taxable year over a certain threshold. A U.S. Holder's net investment income will generally include its gross interest income and its net gains from the disposition of the Certificates, unless such interest 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). If you are a U.S. Holder that is an individual, estate or trust, you are urged to consult your tax adviser regarding the applicability of this tax to your income and gains in respect of your investment in the Certificates.

THE ABOVE DISCUSSION IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE ACQUISITION, OWNERSHIP AND DISPOSITION OF CERTIFICATES. PROSPECTIVE PURCHASERS OF CERTIFICATES SHOULD CONSULT THEIR OWN TAX ADVISERS CONCERNING THE TAX CONSEQUENCES APPLICABLE TO THEIR PARTICULAR CIRCUMSTANCES.

### **EU Savings Directive**

Under Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of other Member States details of payments of interest or similar income, which may include Periodic Distribution Amounts, paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

On 24 March 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Luxembourg and Austria are required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in those Member States which still operate a withholding system when they are implemented. 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.

The end of the transitional period is 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).

### **The proposed financial transactions tax (FTT)**

On 14 February 2013, the European Commission published a proposal (the Commission's 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 Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Certificateholders (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal 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 Certificateholders 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 (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

A joint statement issued in May 2014 by 10 of the 11 participating Member States indicated an intention to implement the FTT progressively, such that it would initially apply to shares and certain derivatives, with implementation occurring by 1 January 2016. An FTT, as initially implemented on this basis, may not apply to dealings in the Certificateholders.

The FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation. Additional EU Member States may decide to participate.

Prospective holders of the Certificateholders 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 Certificates 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 Certificates.

In addition, this summary only addresses the tax consequences to non-residents holding the Certificates 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 income***

The Second Schedule to the Income Tax Ordinance, 2001 of Pakistan (the **Ordinance**) provides an exemption from income tax to any income of an agency of a foreign government, a foreign national (company, firm or association of persons), or any other non-resident person from Certificates issued by the Issuer including periodic distributions and gains on divestment. Accordingly, all payments under the Certificates to be made to holders who benefit from the exemption referred to above will be made without withholding income tax and will not attract any income tax in Pakistan.

#### ***Stamp Duty on any transfer of the Certificates***

Under the Stamp Act 1899, any transfer of the Certificates outside Pakistan would not give rise to liability to pay stamp duty in Pakistan provided that the Certificates so transferred or any instrument of transfer related thereto are not executed or brought into Pakistan (other than into the Islamabad Capital Territory).

## ERISA CONSIDERATIONS

The U.S. Employee Retirement Income Security Act of 1974, as amended (**ERISA**), and Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the **Code**), impose certain restrictions on (i) employee benefit plans (as defined in Section 3(3) of ERISA) that are subject to Part 4, Title I of ERISA, (ii) plans (as defined in Section 4975(e)(1) of the Code) that are subject to Section 4975 of the Code, including individual retirement accounts and Keogh plans, (iii) any entities (including insurance company general accounts) whose underlying assets could be deemed to include plan assets by reason of a plan's investment in such entities (each of the foregoing, a **Plan**) and (iv) persons who have certain specified relationships to a Plan or its assets ("parties in interest" under ERISA and "disqualified persons" under the Code; collectively, **Parties in Interest**). ERISA also imposes certain duties on persons who are fiduciaries of Plans subject to ERISA, and ERISA and Section 4975 of the Code prohibit certain transactions between a Plan and Parties in Interest with respect to such Plan. Violations of these rules may result in the imposition of excise taxes and other penalties and liabilities under ERISA and the Code.

Section 406 of ERISA and Section 4975 of the Code prohibit a broad range of transactions involving plan assets and Parties in Interest, unless a statutory or administrative exemption is available. Parties in Interest that participate in a prohibited transaction may be subject to penalties imposed under ERISA and/or excise taxes imposed pursuant to Section 4975 of the Code, unless a statutory or administrative exemption is available. These prohibited transactions generally are set forth in Section 406 of ERISA and Section 4975 of the Code. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire the Certificates and the circumstances under which such decision is made. Included among these exemptions are Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code (relating to transactions between a person that is a party in interest (other than a fiduciary or an affiliate that has or exercises discretionary authority or control or renders investment advice with respect to assets involved in the transaction) solely by reason of providing services to the plan, provided that there is adequate consideration for the transaction), Prohibited Transaction Class Exemption (**PTCE**) 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a qualified professional asset manager), PTCE 95-60 (relating to transactions involving insurance company general accounts), PTCE 90-1 (relating to investments by insurance company pooled separate accounts) and PTCE 96-23 (relating to transactions determined by in-house asset managers). Prospective investors should consult with their advisors regarding the prohibited transaction rules and these exceptions. There can be no assurance that any of these exemptions or any other exemption will be available with respect to any particular transaction involving the Certificates.

Certain employee benefit plans, including governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA), and non-U.S. plans (as described in Section 4(b)(4) of ERISA) are not subject to the prohibited transaction rules of ERISA or the Code but may be subject to similar rules under other applicable laws or documents. Accordingly, assets of such plans may be invested in the Certificates without regard to the prohibited transaction considerations under ERISA and the Code described below, subject to the provisions of other applicable federal, state, local or non-U.S. law similar to the provisions of Section 406 of ERISA or Section 4975 of the Code (**Similar Law**). Fiduciaries of any such plans should consult with their counsel before purchasing the Certificates to determine the need for, and, if necessary, the availability of, an exemption providing relief under any Similar Law.

The U.S. Department of Labor, the governmental agency primarily responsible for the administration of ERISA, has issued a final regulation (29 C.F.R. Section 2510.3-101), which, together with Section 3(42) of ERISA, set out the standards that will apply for determining what constitutes the assets of a Plan (collectively, the **Plan Asset Regulation**). Under the Plan Asset Regulation, if a Plan invests in an "equity interest" of an entity that is neither a "publicly-offered security" nor a security issued by an

investment company registered under the U.S. Investment Company Act of 1940, the Plan's assets include both the equity interest and an undivided interest in each of the entity's underlying assets, unless it is established that the entity is an "operating company" or that equity participation in the entity by "benefit plan investors" (which are essentially Plans) is not "significant." The Plan Asset Regulation generally defines equity participation in an entity by "benefit plan investors" as "significant" if 25 per cent or more of the value of any class of equity interest in the entity is held by "benefit plan investors." Under the Plan Asset Regulation, a security which is in the form of debt may be considered an equity interest if it has substantial equity features. If the assets of the Issuer were deemed to be plan assets of a Plan, the Issuer would be subject to certain fiduciary obligations under ERISA and certain transactions that the Issuer might enter into, or may have entered into, in the ordinary course of business might constitute or result in non-exempt prohibited transactions under ERISA or Section 4975 of the Code and might have to be rescinded.

While no assurances can be given, the Issuer intends that the Certificates be treated as indebtedness with no substantial equity features and, therefore, not an "equity interest" for purposes of the Plan Asset Regulation. However, even if the Certificates are treated as debt for purposes of the Plan Asset Regulation, the purchase and holding of the Certificates by or on behalf of a "benefit plan investor" could be considered to give rise to a non-exempt prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code. In light of the foregoing, and because neither the Issuer nor the Trustee may be able to monitor which holders of the Certificates are "benefit plan investors," the Issuer intends to limit investments by "benefit plan investors".

Accordingly, each initial purchaser of the Certificates and each subsequent transferee will be deemed to have acknowledged, represented and agreed, by its purchase or holding of Certificates, that (A) it is not and for so long as it holds the Certificates (or any interest therein) will not be (i) a Plan or (ii) a governmental, church or non-U.S. plan subject to Similar Law (a **Similar Law Plan**) unless, its acquisition, holding and disposition of the Certificates will not result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or, in the case of a governmental, church or non-U.S. plan, a violation of the applicable provisions of any Similar Law, and (B) it and any person causing it to acquire any of the Certificates agrees to indemnify and hold harmless the Issuer, the Trust, the Trustee, the Initial Purchasers and their respective affiliates from any cost, damage or loss incurred by them as a result of it being or being deemed to be a Plan or Similar Law Plan.

## PLAN OF DISTRIBUTION

Subject to the terms and conditions stated in the certificate subscription agreement dated on or about 1 December 2014 (the **Certificate Subscription Agreement**) between the Issuer, the Government and the joint lead managers named below (the **Joint Lead Managers**), each of the Joint Lead Managers has severally agreed to subscribe, and the Issuer has agreed to sell to that Joint Lead Manager, the face amount of Certificates set forth opposite that Joint Lead Manager's name:

### Joint Lead Managers

Citigroup Global Markets Limited .....	U.S.\$250,000,000
Deutsche Bank AG, London Branch .....	U.S.\$250,000,000
Dubai Islamic Bank PJSC .....	U.S.\$250,000,000
Standard Chartered Bank .....	U.S.\$250,000,000
<b>Total</b> .....	<b>U.S.\$1,000,000,000</b>

The Certificate Subscription Agreement provides that the obligations of the Joint Lead Managers to pay for and accept delivery of the Certificates are subject to the approval of certain legal matters by their counsel and certain other conditions.

Separate provision has been made among the Government, the Issuer and the Joint Lead Managers for payment of management and selling commissions in respect of the offering and sale of the Certificates. The Issuer has also agreed to reimburse the Joint Lead Managers for certain expenses related to the offering.

The Issuer and the Government have jointly and severally agreed to indemnify the Joint Lead Managers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Joint Lead Managers may be required to make because of any of those liabilities.

The Certificates are a new issue of securities for which there currently is no market. The Joint Lead Managers have advised the Issuer that they intend to make a market in the Certificates as permitted by applicable law. However, there is no obligation for the Joint Lead Managers to make a market and if they do, they may discontinue such market making at any time at their discretion.

The Joint Lead Managers propose to offer the Certificates initially at the offering price on the cover page of this offering circular. After the initial offering, the offering price may change. None of the Issuer, the Government or the Joint Lead Managers have taken any action, nor will the Issuer, the Government or the Joint Lead Managers take any action, in any jurisdiction that would permit a public offering of the Certificates, or the possession, circulation or distribution of this offering circular or any other material relating to the Government or the Certificates in any jurisdiction where action for that purpose is required. Accordingly, an investor may not offer or sell, directly or indirectly, any Certificate and may not distribute or publish either this offering circular or any other offering material or advertisements in connection with the Certificates, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

In connection with the offering of the Certificates, each Joint Lead Manager and/or its affiliate(s) may act as an investor for its own account and may take up Certificates in the offering and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Issuer or the Government or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering. Accordingly, references herein to the Certificates being offered should be read as including any offering of the Certificates to the Joint Lead Managers and/or their affiliates acting in such capacity. Save as set out below, such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory

obligation to do so. Dubai Islamic Bank PJSC has indicated its intention to purchase 30 per cent of the aggregate face amount of the Certificates for investment purposes in the offering.

### **United States**

The Certificates have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws.

The Certificates are being offered and sold to non-U.S. persons in offshore transactions in reliance on Regulation S. The Certificate Subscription Agreement provides that the Joint Lead Managers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of the Certificates within the United States only to QIBs that are QPs in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of any Certificates, an offer or sale of Certificates within the United States by a dealer, whether or not participating in this offering, may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another exemption from registration under the Securities Act. See “*Transfer Restrictions*” for a description of other restrictions on the transfer of the Certificates.

As used herein, the term **United States** has the meaning given to it in Regulation S.

### **United Kingdom**

Each Joint Lead Manager has represented, warranted and agreed that:

- (a) 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 the Certificates in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer and the Government; or
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Certificates in, from or otherwise involving the United Kingdom.

### **Pakistan**

Each Joint Lead Manager has represented and agreed in the Subscription Agreement that the Certificates 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 Certificates and to transfer the Certificates to other non-resident persons, subject, in each case, to the condition that the purchase price is paid in convertible foreign currency outside Pakistan.

### **Hong Kong**

Each Joint Lead Manager has represented, warranted and agreed that (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Certificates other than (i) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent); (ii) to “professional investors” as defined in 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 (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within

the meaning of that Ordinance; and (b) 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 Certificates, 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 Certificates 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 Joint Lead Manager has acknowledged that this offering circular has not been registered as a prospectus with the Monetary Authority of Singapore and the Certificates will be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the **Securities and Futures Act**). Accordingly, each Joint Lead Manager has severally represented and agreed that it has not offered or sold and will not offer or sell any Certificates or cause such Certificates to be 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 any Certificates be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the **SFA**), (b) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Certificates are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) 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
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the Certificates pursuant to an offer under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA; or
- (ii) where no consideration is or will be given for the transfer; or
- (iii) where the transfer is by operation of law; or
- (iv) pursuant to Section 276(7) of the SFA or Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

### **United Arab Emirates (excluding the Dubai International Finance Centre)**

Each Joint Lead Manager has represented and agreed that the Certificates 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 or the sale of securities.

### **Dubai International Financial Centre**

Each Joint Lead Manager has represented and agreed that it has not offered and will not offer the Certificates to any person in the Dubai International Financial Centre unless such offer is:

- (a) an “Exempt Offer” in accordance with the Markets Rules (MKT module) of the Dubai Financial Services Authority (the **DFSA**); and
- (b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

### **Kingdom of Saudi Arabia**

No action has been or will be taken in the Kingdom of Saudi Arabia (**Saudi Arabia**) that would permit a public offering of the Certificates. Any investor in Saudi Arabia or who is a Saudi person (a **Saudi Investor**) who acquires Certificates pursuant to any offering should note that the offer of Certificates is a private placement under Article 10 or Article 11 of the “Offer of Securities Regulations” as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated October 4, 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated August 18, 2008 (the **KSA Regulations**). Each Joint Lead Manager has represented and agreed that it shall not offer, sell or advertise the Certificates to any person in the Kingdom of Saudi Arabia other than to “Sophisticated Investors” under Article 10 of the KSA Regulations or by way of a limited offer under Article 11 of the KSA Regulations and that any offer of the Certificates to a Saudi Investor will be made through a person authorised by the Capital Market Authority to carry on the activity of arranging (as specified in Article 12 of the KSA Regulations) and following a notification to the Capital Market Authority under and in accordance with the KSA Regulations. Each Joint Lead Manager has represented and agreed that any offer of Certificates will comply with the KSA Regulations.

The offer of Certificates shall not therefore constitute a “public offer” pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 17 of the KSA Regulations. Any Saudi Investor who has acquired Certificates pursuant to a private placement under Article 10 and/or Article 11 of the KSA Regulations may not offer or sell those Certificates to any person unless the offer or sale is made through an authorized person appropriately licensed by the Saudi Arabian Capital Market Authority and: (a) the Certificates are offered or sold to a Sophisticated Investor; (b) the price to be paid for the Certificates in any one transaction is equal to or exceeds Saudi Riyal 1 million or an equivalent amount; or (c) the offer or sale is otherwise in compliance with Article 17 of the KSA Regulations.

### **Malaysia**

Each Joint Lead Manager has represented and agreed that:

- (a) this offering circular has not been registered as a prospectus with the Securities Commission Malaysia (the **SC**) under the Capital Markets and Services Act 2007 of Malaysia (**CMSA**); and
- (b) accordingly, the Certificates have not been and will not be offered for subscription or purchase, nor will any invitation to subscribe for or purchase the Certificates be made, directly or indirectly, nor may this offering circular, any application for the Certificates or any document or other material in connection with the offering, this offering circular or the Certificates be circulated or distributed in Malaysia, other than to persons falling within Schedule 6 or Section 229(1)(b) and Schedule 7 or Section 230(1)(b) and Schedule 8 or



Section 257(3), read together with Schedule 9 or Section 257(3) of the CMSA, subject to any law, order, regulation or official directive of Central Bank of Malaysia, the SC and/or any other regulatory authority from time to time.

Residents of Malaysia may be required to obtain relevant regulatory approvals including approval from the Controller of Foreign Exchange to purchase Certificates. The onus is on the Malaysian residents concerned to obtain such regulatory approvals and none of the Joint Lead Managers is responsible for any invitation, offer, sale or purchase of the Certificates as aforesaid without the necessary approvals being in place.

### **Settlement and Delivery**

The Government and the Issuer expect that delivery of the global certificates will be made against payment therefor on or about the Issue Date, which will be on or about the fifth business day following the date of pricing of the Certificates. Under Rule 15c6-1 of the U.S. Securities Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to a trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Certificates on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Certificates initially will settle on or about T+5, to specify alternative settlement arrangements to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Certificates may be affected by such local settlement practices and purchasers of Certificates who wish to trade Certificates on the date of pricing or the next succeeding business day should consult their own adviser.

### **Relationship of Joint Lead Managers with the Government**

All or some of the Joint Lead 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 Government and its agencies and in relation to securities issued by the Government 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 Government and its agencies; or (iii) act as financial advisers to the Government and its agencies. In the context of these transactions, certain of them have or may hold securities issued by the Government 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 Joint Lead 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 Government or its agencies. The Joint Lead Managers or their affiliates may routinely hedge their credit exposure to the Government consistent with their customary risk management policies. Typically, such Joint Lead 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 securities, including potentially the Certificates to be issued. Any such short positions could adversely affect future trading prices of the Certificates to be issued. The Joint Lead 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.

### **General**

Each of the Joint Lead Managers has represented, warranted and agreed that it will comply to the best of its knowledge and belief in all material respects with all applicable securities laws and regulations in force in any jurisdiction in which it offers or sells the Certificates or possesses or distributes the

offering circular and will obtain any consent, approval or permission required by it for the offer or sale by it of the Certificates under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such offers or sales and no Joint Lead Manager shall have any responsibility therefor.

These selling restrictions may be modified by agreement between the Issuer, the Government and the Joint Lead Managers following a change in relevant law, regulation or directive.

No representation is made that any action has been taken in any jurisdiction that would permit a public offering of the Certificates, or possession or distribution of this offering circular, or any other offering material in any country or jurisdiction where action for that purpose is required.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Joint Lead Manager or its affiliate on behalf of the Issuer in such jurisdiction.

## TRANSFER RESTRICTIONS

*Due to the following significant transfer restrictions applicable to the Certificates, investors are advised to consult legal counsel prior to making any reoffer, resale, pledge, transfer or disposal of the Certificates.*

The Certificates 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 or sold in the United States or to, or for the account or benefit of, U.S. persons, except pursuant to an effective registration statement or in accordance with an applicable exemption from, or in transactions not subject to, the registration requirements of the Securities Act. Accordingly, the Certificates are being offered and sold: (i) in the United States only to persons reasonably believed to be QIBs that are also QPs in reliance on Rule 144A; or (ii) to non-U.S. persons in offshore transactions pursuant to Regulation S.

Any reoffer, resale, pledge, transfer or other disposal, or attempted reoffer, resale, pledge, transfer or other disposal, made other than in compliance with the restrictions noted below shall not be recognised by the Seller, the Government, the Issuer or the Delegate.

### **Rule 144A Transfer Restrictions**

Each purchaser of a beneficial interest in the Rule 144A Certificates will be deemed to have acknowledged, represented and agreed that it has received a copy of the offering circular and such other information as it deems necessary to make an informed investment decision and that:

- (1) It is: (a) a QIB that is also a QP; (b) not a broker dealer that owns and invests on a discretionary basis less than U.S.\$25 million in securities of unaffiliated issuers; (c) not a participant-directed employee plan, such as a 401(k) plan; (d) acquiring such Rule 144A Certificates for its own account, or for the account of one or more QIBs, each of which is also a QP; (e) not formed for the purpose of investing in the Rule 144A Certificates or the Issuer; and (f) aware, and each beneficial owner of the Rule 144A Certificates has been advised, that the sale of the Rule 144A Certificates to it is being made in reliance on Rule 144A and the Issuer is relying on the exemption from the registration requirements of the Investment Company Act provided by section 3(c)(7).
- (2) It will: (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Rule 144A Certificates in a face amount that is not less than U.S.\$200,000; and (b) provide notice of the transfer restrictions to any subsequent transferees.
- (3) It understands that the Rule 144A Certificates 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 be offered, sold, pledged or otherwise transferred only:
  - (a) to a non-U.S. person in an offshore transaction in accordance with Regulation S under the Securities Act;
  - (b) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available);
  - (c) within the United States to a person whom it reasonably believes is a QIB that is also a QP that is purchasing for its own account or for the account of one or more QIBs each of which is also a QP, in a transaction meeting the requirements of Rule 144A under the Securities Act; or
  - (d) pursuant to an effective registration statement under the Securities Act,

in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States.

- (4) It understands that Rule 144A Certificates sold in the offering will constitute “restricted securities” within the meaning of Rule 144 under the Securities Act, and for so long as they remain “restricted securities” such Rule 144A Certificates may not be transferred except as described in paragraph (3).
- (5) It understands that the Issuer has the power to compel any beneficial owner of Rule 144A Certificates that is not a QIB and also a QP to sell its interest in the Rule 144A Certificates, or may sell such interest on behalf of such owner. In the case of Rule 144A Definitive Certificates, the Issuer has the right to refuse to honour the transfer of an interest in the Rule 144A Certificates to a person who is not both a QIB and a QP.

Any purported transfer of the Rule 144A Certificates to a purchaser that does not comply with the requirements of the transfer restrictions herein will be of no force and effect and will be void *ab initio*.

- (6) It understands that Rule 144A Certificates will bear a legend to the following effect, unless the Issuer determines otherwise in compliance with applicable law:

“THIS CERTIFICATE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND ACCORDINGLY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED OR DISPOSED OF EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (“**RULE 144A**”) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (A “**QIB**”) WITHIN THE MEANING OF RULE 144A THAT IS ALSO A QUALIFIED PURCHASER (A “**QP**”) WITHIN THE MEANING OF SECTION 2(A)(51) OF THE UNITED STATES INVESTMENT COMPANY ACT OF 1940 (THE “**INVESTMENT COMPANY ACT**”) PURCHASING FOR ITS OWN ACCOUNT OR THE ACCOUNT OF ONE OR MORE QIBS EACH OF WHICH IS A QP WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT, AND IN AN AMOUNT FOR EACH ACCOUNT OF NOT LESS THAN U.S.\$200,000 OR (2) IN AN OFFSHORE TRANSACTION TO A PERSON WHO IS NOT A U.S. PERSON WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT (“**REGULATION S**”), AND, IN EACH CASE, IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE CERTIFICATES REPRESENTED HEREBY OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. ANY TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT AND WILL BE VOID *AB INITIO*.

IF THE BENEFICIAL OWNER HEREOF IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S, SUCH BENEFICIAL OWNER REPRESENTS THAT (1) IT IS A QIB THAT IS ALSO A QP; (2) IT IS NOT A BROKER DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.\$200,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (3) IT IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401(K) PLAN; (4) IT IS HOLDING THE CERTIFICATES REPRESENTED HEREBY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS, EACH OF WHICH IS A QP; (5) IT WAS NOT FORMED FOR THE

PURPOSE OF INVESTING IN THE ISSUER OR THE CERTIFICATES REPRESENTED HEREBY; (6) IT, AND EACH ACCOUNT FOR WHICH IT HOLDS CERTIFICATES, WILL HOLD AND TRANSFER AT LEAST U.S.\$200,000; (7) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES.

THE BENEFICIAL OWNER HEROF HERBY ACKNOWLEDGES THAT IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN THIS CERTIFICATE IT IS NOT A QIB AND A QP, THE ISSUER MAY (A) COMPEL IT TO SELL ITS INTEREST IN THIS CERTIFICATE TO A PERSON WHO IS (I) A QIB AND A QP THAT IS, IN EACH CASE, OTHERWISE QUALIFIED TO PURCHASE THE CERTIFICATES REPRESENTED HEREBY IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (II) NOT A U.S. PERSON IN AN OFFSHORE TRANSACTION WITHIN THE MEANING OF REGULATION S OR (B) COMPEL THE BENEFICIAL OWNER TO SELL ITS INTEREST IN THE CERTIFICATES REPRESENTED HEREBY TO THE TISSUER OR AN AFFILIATE OF THE ISSUER OR TRANSFER ITS INTEREST IN THIS CERTIFICATE TO A PERSON DESIGNATED BY OR ACCEPTABLE TO THE TRUSTEE AT A PRICE EQUAL TO THE LESSER OF (X) THE PURCHASE PRICE THEREFOR PAID BY THE BENEFICIAL OWNER, (Y) 100 PER CENT OF THE FACE AMOUNT THEREOF OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF AN INTEREST IN THE CERTIFICATES REPRESENTED HEREBY TO A U.S. PERSON WHO IS NOT A QIB AND A QP. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

BY ITS ACQUISITION HEREOF, THE HOLDER REPRESENTS THAT (A) IT IS NOT AND FOR SO LONG AS IT HOLDS THIS CERTIFICATE (OR ANY INTEREST HEREIN) WILL NOT BE (I) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (**ERISA**) THAT IS SUBJECT TO TITLE I OF ERISA, (II) A "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE **CODE**), (III) AN ENTITY WHOSE UNDERLYING ASSETS COULD BE DEEMED TO INCLUDE PLAN ASSETS BY REASON OF AN EMPLOYEE BENEFIT PLAN OR PLAN'S INVESTMENT IN SUCH ENTITY, OR (IV) A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN WHICH IS SUBJECT TO ANY STATE, LOCAL, OTHER FEDERAL LAW OF THE UNITED STATES OR NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (**SIMILAR LAW**) UNLESS, ITS ACQUISITION, HOLDING AND DISPOSITION OF THIS CERTIFICATE WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR, IN THE CASE OF A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, VIOLATE THE APPLICABLE PROVISIONS OF ANY SIMILAR LAW, AND (B) IT WILL NOT SELL OR OTHERWISE TRANSFER THIS CERTIFICATE (OR ANY INTEREST HEREIN) TO ANY PERSON WITHOUT FIRST OBTAINING THE SAME FOREGOING REPRESENTATIONS AND WARRANTIES FROM THAT PERSON.

THE TRUSTEE MAY COMPEL EACH BENEFICIAL OWNER OF THE CERTIFICATES REPRESENTED HEREBY TO CERTIFY PERIODICALLY THAT SUCH BENEFICIAL OWNER IS A QIB AND A QP.

- (7) It acknowledges that the Issuer, the Seller, the Government, the Registrars, the Joint Lead Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its

purchase of Rule 144A Certificates is no longer accurate, it shall promptly notify the Issuer, the U.S. Registrar and the Joint Lead Managers. If it is acquiring any Certificates as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each account; and

- (8) It understands that Rule 144A Certificates will be represented by interests in one or more Rule 144A Global Certificates. Before any interest in a Rule 144A Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Regulation S Global Certificate, it will be required to provide a Transfer Agent or the Registrars with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

### **Regulation S Transfer Restrictions**

Each purchaser of a beneficial interest in the Regulation S Certificates and each subsequent purchaser of such Regulation S Certificates in resales will be deemed to have acknowledged, represented and agreed that it has received a copy of the offering circular and such other information as it deems necessary to make an informed investment decision and that:

- (1) It is not a U.S. person and that it is purchasing the Regulation S Certificates in an “offshore transaction” (as defined in Regulation S) and the Regulation S Certificates have not been offered to it by means of any “directed selling efforts” (as defined in Regulation S).
- (2) It understands that the Regulation S Certificates 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, pledged or otherwise transferred except (a) in accordance with Rule 144A in an amount not less than U.S.\$200,000 to a person that it and any person acting on its behalf reasonably believes is a QIB that is also a QP purchasing for its own account or for the account of a QIB that is also a QP, each of which is purchasing not less than U.S.\$200,000 or (b) to a non-U.S. person in an offshore transaction in accordance with Regulation S, in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States.
- (3) It understands that the Regulation S Certificates, unless otherwise determined by the Trustee in accordance with applicable law, will bear a legend substantially in the following form:

“THIS CERTIFICATE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND ACCORDINGLY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED OR DISPOSED OF WITHIN THE UNITED STATES OR TO A U.S. PERSON EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT.”

- (4) The Issuer, the Seller, the Government, the Registrars, the Joint Lead Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements, and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Regulation S Certificates is no longer accurate, it shall promptly notify the Issuer, the Registrars and the Joint lead Managers.
- (5) It understands that Regulation S Certificates will be evidenced by a Regulation S Global Certificate. Before any interest in a Regulation S Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a

Rule 144A Global Certificate, it will be required to provide the relevant Transfer Agent or Registrars 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 a QP purchasing the beneficial interest for its own account or the account of a QIB who is also a QP; and (ii) in each case in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state or other jurisdiction of the United States.

#### **ERISA Transfer Restrictions**

Each purchaser or transferee of the Certificates (or any interest therein) will be deemed to have acknowledged, represented and agreed that (a) it is not and is not acting on behalf of: (i) a Plan, or (ii) a governmental, church or non-U.S. plan the acquisition, holding and disposition of the Certificate will not result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or, in the case of a governmental, church or non-U.S. plan, violate the applicable provisions of any Similar Law and (b) it will not sell or otherwise transfer any Certificates (or any interest therein) to any person without first obtaining the same foregoing representations and warranties from that person.

## **LEGAL MATTERS**

The validity of the Certificates will be passed upon (i) for the Issuer, the Trustee and the Government by Norton Rose Fulbright LLP counsel to the Issuer, the Trustee and the Government as to English and U.S. federal law, and by Khan & Associates counsel to the Issuer, the Trustee and the Government as to Pakistani law, (ii) for the Joint Lead Managers by Allen & Overy LLP counsel to the Joint Lead Managers as to English and U.S. federal law and Kabraji & Talibuddin counsel to the Joint Lead Managers as to Pakistani law. As to all matters of Pakistani law, Norton Rose Fulbright LLP may rely on the opinion of Khan & Associates and Allen & Overy LLP may rely upon the opinion of Kabraji & Talibuddin. As to all matters of English law, Khan & Associates may rely upon the opinion of Norton Rose Fulbright LLP and Kabraji & Talibuddin may rely on the opinion of Allen & Overy LLP.



## CLEARANCE AND SETTLEMENT

*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 currently in effect. The information in this section concerning such clearing systems has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer, the Seller, the Government, the Delegate, the Agents, the Joint Lead Managers takes any responsibility for the accuracy of this section. The Issuer and the Government only takes responsibility for the correct extraction and reproduction of the information in this section. 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, the Seller, the Government 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 Certificates held through the facilities of any clearing system or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

### **Book-entry ownership**

The Certificates will be evidenced on issue by the Regulation S Global Certificates (which shall be registered in the name of a nominee of, and deposited with a common depositary for, Euroclear and Clearstream, Luxembourg) and the Rule 144A Global Certificates (which shall be registered in the name of a nominee of, and shall be deposited with a custodian for, DTC).

The Issuer, and a relevant joint lead manager appointed for such purpose that is an eligible DTC participant, will make application to DTC for acceptance in its book-entry settlement system of the Certificates represented by the Rule 144A Global Certificates. The Issuer will also make application to Euroclear and/or Clearstream, Luxembourg for acceptance in their respective book-entry systems in respect of the Certificates to be represented by the Regulation S Global Certificates. The Regulation S Global Certificates and Rule 144A Global Certificates will each have an ISIN and a Common Code and the Rule 144A Global Certificates will also have a CUSIP. The Rule 144A Global Certificates and the Regulation S Global Certificates will be subject to restrictions on transfer contained in a legend appearing on the front of such Global Certificate, as set out under “*Transfer Restrictions*”.

Upon the Rule 144A Global Certificates being registered in the name of a nominee of, and deposited with a custodian for, DTC, DTC will electronically record the nominal amount of the Certificates held within the DTC system. Investors may hold their beneficial interests in the Global Certificates directly through DTC if they are participants in the DTC system, or indirectly through organisations (including Euroclear and Clearstream, Luxembourg) which are direct or indirect participants in such system (together, such direct and indirect participants of DTC shall be referred to as **DTC participants**). All interests in the Rule 144A Global Certificates, including those held through Euroclear or Clearstream, Luxembourg may be subject to the procedures and requirements of DTC. Those interests held through Euroclear, Clearstream, Luxembourg may also be subject to the procedures and requirements of such system.

Upon the Regulation S Global Certificates being registered in the name of nominees of, and deposited with a common depositary for, Euroclear and Clearstream, Luxembourg, Euroclear and Clearstream, Luxembourg will electronically record the nominal amount of the Regulation S Certificates held within the Euroclear and Clearstream, Luxembourg systems. Investors may hold their beneficial interests in the Regulation S Global Certificates directly through Euroclear and Clearstream, Luxembourg if they are participants in the Euroclear and Clearstream, Luxembourg systems, or indirectly through organisations which are participants in such system (together, such direct and indirect participants of Euroclear and Clearstream, Luxembourg shall be referred to as “**Euroclear and Clearstream, Luxembourg participants**”). Ownership of beneficial interests in a Regulation S Global Certificate accepted by Euroclear and Clearstream, Luxembourg will be shown on, and the transfer of such

ownership will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg or their nominees (with respect to the interests of direct participants) and the records of direct participants (with respect to interests of indirect participants). All interests in Regulation S Global Certificates may be subject to the procedures and requirements of Euroclear and Clearstream, Luxembourg. Those interests held through any indirect participants may also be subject to the procedures and requirements of such systems.

#### **Payments and relationship of participants with clearing systems**

Each of the persons shown in the records of DTC, Euroclear and Clearstream, Luxembourg as the holder of a Certificate represented by a Global Certificate must look solely to DTC, Euroclear and Clearstream, Luxembourg for his 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 the relevant clearing system. The Issuer expects that, upon receipt of any payment in respect of Certificates represented by a Global Certificate, DTC, Euroclear and Clearstream, Luxembourg or their respective nominees 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 face amount of the relevant Global Certificate as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by DTC, Euroclear and Clearstream, Luxembourg participants to owners of beneficial interests in a Global Certificate held through such DTC, Euroclear and Clearstream, Luxembourg participants 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 Certificates for so long as the Certificates are represented by such Global Certificate and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Certificate in respect of each amount so paid. None of the Issuer, the Delegate or any Agent shall 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.

#### **Transfer of Certificates**

Transfers of interests in the Global Certificates within Euroclear, Clearstream, Luxembourg and DTC will be in accordance with the usual rules and operating procedures of the relevant clearing system. The laws of some states in the United States require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in the Rule 144A Global Certificates to such persons may be limited. Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in the Rule 144A Global Certificates 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 the lack of a physical certificate in respect of such interest.

Beneficial interests in the Regulation S Global Certificates will be effected only through records maintained by Euroclear and Clearstream, Luxembourg. In the case of Certificates to be cleared through Euroclear, Clearstream, Luxembourg, and/or DTC, transfers may be made at any time by a holder of an interest in the Regulation S Global Certificates to a transferee who wishes to take delivery of such interest through the Rule 144A Global Certificates provided that any such transfer will, subject to the applicable procedures of Euroclear, Clearstream, Luxembourg and/or DTC from time to time, only be made upon receipt by any transfer agent of a written certificate from Euroclear or Clearstream, Luxembourg, as the case may be, (based on a written certificate from the transferor of such interest) to the effect that such transfer is being made to a person that the transferor reasonably believes is a QIB within the meaning of Rule 144A that is also a QP purchasing the Certificates for its own account or any account of a QIB that is also a QP, in each case in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States. Any such transfer made thereafter of the Certificates represented by such Regulation S Global Certificates will

only be made upon request through Euroclear or Clearstream, Luxembourg by the holder of an interest in the Regulation S Global Certificates to the Delegate or other agent of details of that account at DTC to be credited with the relevant interest in the Rule 144A Global Certificates. Transfers at any time by a holder of any interest in the Rule 144A Global Certificates to a transferee who takes delivery of such interest through the Regulation S Global Certificates will, subject to the applicable procedures of Euroclear, Clearstream, Luxembourg and/or DTC from time to time, only be made upon delivery to any transfer agent of a certificate setting forth compliance with the provisions of Regulation S and giving details of the account at Euroclear or Clearstream, Luxembourg, as the case may be, and DTC to be credited and debited, respectively, with an interest in each relevant Global Certificate.

Subject to compliance with the transfer restrictions applicable to the Certificates described above and under “*Transfer Restrictions*”, cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream, Luxembourg accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the custodian or common depositary of the Global Certificates, the Registrars, the Principal Paying Agent and other paying agent. On or after the Issue Date, transfers of Certificates between accountholders in Euroclear and/or Clearstream, Luxembourg and transfers of Certificates between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Euroclear or Clearstream, Luxembourg and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Euroclear and Clearstream, Luxembourg, on the other, transfers of interests between the Global Certificates will be effected through the Principal Paying Agent and other paying agents, the custodian or common depositary of the Global Certificates, the Registrars and any transfer agent receiving instructions (and where appropriate certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. Transfers will be effected on the later of (i) three business days after the trade date for the disposal of the interest in the relevant Global Certificate resulting in such transfer and (ii) two business days after receipt by the Principal Paying Agent or other paying agent or the relevant Registrar, as the case may be, of the necessary certification or information to effect such transfer. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

For a further description of restrictions on transfer of the Certificates, see “*Transfer Restrictions*”.

### **Information on DTC**

DTC will take any action permitted to be taken by a holder of Certificates only at the direction of one or more DTC participants in whose accounts with DTC interests in the Global Certificates deposited with a custodian for DTC are credited and only in respect of such portion of the aggregate nominal amount of the relevant Global Certificate deposited with a custodian for DTC as to which such DTC participant or participants has or have given such direction. However, the custodian of the Global Certificates will surrender the relevant Global Certificate for exchange for individual definitive certificates in certain limited circumstances.

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. Direct 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.

### **Information on Euroclear and Clearstream, Luxembourg**

Each of Euroclear and Clearstream, Luxembourg holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. 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 participants may settle trades with each other. Euroclear and Clearstream, Luxembourg customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in the Global Certificates among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC 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, or any Agent will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

While the Global Certificates are lodged with DTC Euroclear and Clearstream, Luxembourg, Certificates represented by individual definitive certificates will not be eligible for clearing or settlement through Euroclear, Clearstream, Luxembourg, or DTC.

### **Individual Definitive Certificates**

Registration of title to Certificates in a name other than a custodian or its nominee for DTC or a common depository or its nominee for Euroclear or Clearstream, Luxembourg will be permitted only in the circumstances set forth in “*Global Certificates—Exchange for Definitive Certificates*”. In such circumstances, the Issuer will cause sufficient individual definitive certificates to be executed and delivered to the relevant Registrar for completion, authentication and despatch to the relevant Certificate holder. A person having an interest in a Global Certificate must provide the Registrars with certain information as specified in the Agency Agreement.

### **Pre-issue trades settlement**

It is expected that delivery of Certificates will be made against payment therefor on the Issue Date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the 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 Certificates on the date of pricing or the next succeeding business day will be required, by virtue of the fact the Certificates initially will settle beyond T+3, to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Certificates may be affected by such local settlement practices and purchasers of Certificates who wish to trade Certificates on the date of pricing or the next succeeding business day should consult their own adviser.

## GENERAL INFORMATION

### Authorisation

The entry by the Government into the transactions contemplated by the Transaction Documents was authorised by the Prime Minister of the Islamic Republic of Pakistan on 17 November 2014.

The Issuer was established on 3 October 2014 for the purpose of issuing the Certificates and entering into the Transaction Documents. The issue of the Certificates has been duly authorised by a resolution of the Board of Directors of the Issuer dated 21 November 2014. The Issuer has obtained all necessary consents, approvals and authorisations in Pakistan in connection with the issue and performance of the Certificates and the execution and performance of the Transaction Documents.

### Listing

Application has been made to admit the Certificates 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 International à Luxembourg, *société anonyme*.

So long as any of the Certificates 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 Government will maintain a paying agent and a transfer agent in Luxembourg.

### Documents Available

For so long as any Certificates remain outstanding, copies (and English translations where the documents in question are not in English) of the following documents will be available, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection and/or collection at the offices of the Principal Paying Agent:

- (a) the Transaction Documents;
- (b) the Issuer Constitutional Documents; and
- (c) this offering circular.

A copy of the offering circular, the Issuer Constitutional Documents and the Transaction Documents will be available for inspection and/or collection at the specified office of the Paying Agent and the Listing Agent during normal business hours so long as the Certificates are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market.

Once the Certificates 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](http://www.bourse.lu)).

### Clearing Systems

The Global Certificates have been accepted for clearance through DTC, Euroclear and Clearstream, Luxembourg. The ISIN for the Rule 144A Certificates is US813608AA42. The CUSIP for the Rule 144A Certificates is 813608 AA4. The Common Code for the Rule 144A Certificates is 114819085. The ISIN for the Regulation S Certificates is XS1147732553. The Common Code for the Regulation S Certificates is 114773255.

**Litigation**

The Issuer is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) that may have, or have had since the date of its incorporation, a significant effect on the financial position or profitability of the Issuer.

The Government is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Government is aware) in the 12 months preceding the date of this offering circular which may have, or have had in such period a significance effect on the financial position or profitability of the Government.

**Financial Statements**

Since the date of its incorporation, no financial statements of the Issuer have been prepared. The fiscal year of the Issuer will end on 30 June of each year, with the first fiscal year covering the period from 3 October 2014 to 30 June 2015. The Issuer will prepare and file its annual audited accounts with the Registrar of Companies, Islamabad but is not required to, and does intend to, publish annual audited accounts. The Issuer will not prepare any interim accounts.

There has been no material adverse change in the financial position or prospects of the Issuer and no significant change in the financial or trading position of the Issuer, in each case, since its incorporation.

The Issuer has no subsidiaries.

## **ISSUER AND TRUSTEE**

### **The Second Pakistan International Sukuk Company Limited**

Room No. 208, Q-Block, Finance Division  
Pak Secretariat  
Islamabad  
Pakistan

### **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

## **DELEGATE**

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United Kingdom

## **PRINCIPAL PAYING AGENT**

### **Deutsche Bank AG, London Branch**

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## **EURO REGISTRAR AND EURO TRANSFER AGENT**

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## **U.S. REGISTRAR, U.S. TRANSFER AGENT AND PAYING AGENT**

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## **LEGAL ADVISERS**

### **Legal Advisers to the Government, the Issuer and the Trustee**

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*as to English law and United States law*

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### **LISTING AGENT**

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