



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

**The Third 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 2021**

**Issue Price: 100 per cent.**

The U.S.\$1,000,000,000 trust certificates due 2021 (the **Certificates**) of The Third 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 13 October 2016 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 The Law Debenture Trust Corporation p.l.c. (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 (the **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 13 April and 13 October in each year, commencing on 13 April 2017 (each, a **Periodic Distribution Date**), the Issuer will pay Periodic Distribution Amounts (as defined herein) to Certificateholders calculated at the rate of 5.50 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 13 October 2021 (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 19.**

The Certificates are expected to be assigned a rating of 'B3' by Moody's Singapore Pte Ltd (**Moody's**) and a rating of 'B' by Fitch (Hong Kong) Limited (**Fitch**). 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 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) in offshore transactions in reliance on Regulation S under the Securities Act (**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, acting for their own account or for the account of one or more QIBs (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 S.A. (**Clearstream, Luxembourg**) on 13 October 2016 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 Joint Lead 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**

**Noor Bank**

**Standard Chartered  
Bank**

The date of this offering circular is 10 October 2016.

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.

None of the Joint Lead Managers, the Delegate or the Agents have 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, the Delegate, the Agents 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, the Delegate or the Agents 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, the Executive Committee of the Fatwa & Shariah Advisory Board of Dubai Islamic Bank PJSC, the Shari'a Supervisory Committee of Noor 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, pledged 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 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. 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*”.

#### **VOLCKER RULE**

The Issuer is not, and solely after giving effect to any offering and sale of the Certificates and the application of the proceeds thereof will not be, a “covered fund” for purposes of regulations adopted under Section 13 of the Bank Holding Company Act of 1956, as amended (commonly known as the Volcker Rule). In reaching this conclusion, although other statutory or regulatory exclusions and/or exemptions under the Investment Company Act and under the Volcker Rule and its related regulations may be available, the Issuer has relied on the determinations that (i) the Issuer would satisfy all of the elements of the exemption from registration under the Investment Company Act provided by Section 3(c)(5)(C) of the Investment Company Act, and, accordingly, (ii) the Issuer may rely on the exemption from the definition of a “covered fund” under the Volcker Rule made available to entities that do not rely solely on Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act for their exclusion and/or exemption from registration under the Investment Company Act. Each investor is responsible for analysing its own position under the Volcker Rule.

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, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE ISSUE DATE AND, IF BEGUN, MAY CEASE 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 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 5 October 2016 as quoted by the State Bank of Pakistan (**SBP**) was Rupees 104.79 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 **2015-16** 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 2015-16** herein are to the Economic Survey 2015-16 published on 2 June 2016 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 2014-15** herein are to the labour force survey published in November 2015 by the Government of Pakistan, Statistics Division, Pakistan Bureau of Statistics, Islamabad. The Labour Force Survey 2014-15 presents information on labour force characteristics that have been collected from a representative sample of 42,292 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
2014- 15.....	101.02	101.73
2015-16.....	104.24	104.65
June 2016.....	104.59	104.65
July 2016.....	104.74	104.74
Aug 2016.....	104.62	104.71
Sept 2016.....	104.54	104.60
Oct 2016 <sup>(1)</sup> .....	-	104.79

(1) As of 5 October 2016

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 193.6 million in 2015-16 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. The Government is headed by the Prime Minister, Mr Mian Muhammad Nawaz Sharif.

Pakistan's economy is the twenty-seventh largest in the world in terms of purchasing power parity and the forty-second largest in terms of Gross Domestic Product (**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 (59.2 per cent of GDP), industrial (21.0 per cent of GDP) and agriculture (19.8 per cent of GDP) (in each case, based on 2015-16 GDP). Major industries include textiles, chemicals, food processing, iron, steel, automobiles, fertilizer, cement, dairy and sports goods.

Under its current Government, elected in May 2013, Pakistan is currently undergoing a significant process of fiscal consolidation, improvement of macroeconomic fundamentals and economic liberalisation which includes tax reforms, energy sector reforms, and the privatisation of state-owned enterprises (**SOEs**). Pakistan aims to attract increased levels of foreign investment and decrease the budget deficit. Foreign exchange reserves have been bolstered by improved financial inflows and a moderate current account deficit, underpinned by steady worker remittances and relatively low imports. See "- *Structural Economic Reforms*" below.

The Government's three-year finance programme with the IMF - concluded in September 2016 - provided an institutional framework for the Government's economic policy objectives. Pursuant to its financing arrangements with the IMF, Pakistan was subject to quarterly economic review by the IMF officials for consideration by the executive board of the IMF. On 4 August 2016, IMF staff completed the twelfth and final review of Pakistan's economic performance. This entitles Pakistan to the release of the residual SDR 73 million (U.S.\$102 million) as agreed by an IMF executive board meeting held at the end of September 2016. With the release of the last tranche, total disbursements under the arrangement will be SDR 4.39 billion (approximately U.S.\$6.64 billion).

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

A measure of macroeconomic stability has been achieved in recent years. Nominal gross domestic product was approximately Rupees 29,598 billion (approximately U.S.\$284 billion) in 2015-16 and GDP growth was 4.71 per cent in 2015-16 and 4.04 per cent in 2014-15. The increased growth in GDP in 2015-16 reflects a general improvement in economic activity in the country. In 2015-16, the services sector grew at 5.71 per cent (4.31 per cent in 2014-15), the agriculture sector contracted by 0.19 per cent (2.53 per cent growth in 2014-15) and the industrial sector grew at 6.80 per cent (4.81 per cent in 2014-15).

This growth has been achieved in an environment of lower inflation and with a significantly lower fiscal deficit, with inflation decreasing from 11 per cent in 2011-12 to 2.9 per cent in 2015-16 and the fiscal deficit shrinking from 8.2 per cent in 2012-13 to 4.6% in 2015-16.

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

	2011-12	2012-13	2013-14	2014-15 <sup>(1)</sup>	2015-16 <sup>(2)</sup>
GDP at current market price (Rupees million).....	20,046,500	22,385,657	25,168,805	27,493,105	29,597,905
GNI at current market price (Rupees million).....	21,082,207	23,547,264	26,597,032	29,167,916	31,466,584
Population (million).....	178.9	182.5	186.2	189.9	193.6
Per capita income at factor cost (Rupees).....	114,008	124,171	136,727	146,493	153,822
Per capita income (U.S.\$).....	1,321	1,334	1,389	1,517	1,561
Exports (U.S.\$ million) (fob).....	24,718	24,802	25,078	24,089	21,977 <sup>(4)</sup>
Imports (U.S.\$ million)(fob).....	40,370	40,157	41,668	41,280	40,347 <sup>(4)</sup>
Balance of trade (U.S.\$ million).....	(15,652)	(15,355)	(16,590)	(17,191)	(18,370) <sup>(4)</sup>
Workers' remittances (U.S.\$ million).....	13,186	13,922	15,837	18,721	19,917 <sup>(4)</sup>
Current account balance (U.S.\$ million).....	(4,658)	(2,496)	(3,130)	(2,709)	(3,262) <sup>(4)</sup>
Current account balance (as % of GDP).....	(2.1)	(1.1)	(1.3)	(1.0)	(1.1) <sup>(4)</sup>
Overall fiscal deficit (as % of GDP).....	6.8 <sup>(3)</sup>	8.2	5.5	5.3	4.6
GDP growth at factor cost (%).....	3.84	3.68	4.05	4.04	4.71
Average Inflation (%).....	11.0	7.4	8.6	4.5	2.86 <sup>(4)</sup>
Total investment at market price (as % of GDP).....	15.1	15.0	14.6	15.5	15.2
Real GDP at factor cost (Rupees million).....	9,470,255	9,819,055	10,217,056	10,629,661	11,130,035
Private consumption expenditure at current prices (Rupees million).....	16,527,831	18,091,829	20,391,214	21,995,133	23,698,864
National savings (as % of GDP).....	13.0	13.9	13.4	14.5	14.6 <sup>(5)</sup>

(1) Revised and approved by the National Assembly in June 2016.

(2) Provisional pending National Assembly approval in May 2017 of Pakistan's economic data for 2015-16.

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

(4) Final numbers published by the State Bank of Pakistan

(5) July-March 2016 only

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

## Economy

Under its current Government, elected in May 2013, Pakistan is currently undergoing a significant process of economic liberalisation which includes privatisation of SOEs (such as Kot Addu Power Company and Mari Petroleum Company Limited) 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. Since 2013-14, its foreign exchange reserves have grown, bolstered principally by steady worker remittances, offset by a moderate current account deficit – driven by a widening trade gap as import growth outstrips export expansion – which also affects its GDP.

The Government's three-year finance programme with the IMF - concluded in September 2016 - provided an institutional framework for the Government's economic policy objectives. Pursuant to its financing arrangements with the IMF, Pakistan was subject to quarterly economic review by the IMF officials for consideration by the executive board of the IMF. On 4 August 2016, IMF staff completed the twelfth and final review of Pakistan's economic performance. This entitles Pakistan to the release of the residual SDR 73 million (U.S.\$102 million) as agreed by an IMF executive board meeting held at the end of September 2016. With the release of the last tranche, total disbursements under the arrangement will be SDR 4.39 billion (approximately U.S.\$6.64 billion).

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, trade reform and privatisation, corporatisation and restructuring of SOEs, including 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 2015-16 represented 4.6 per cent of GDP, compared to 5.3 per cent of GDP in 2014-15 and 8.2 per cent in 2012-13. The Government's fiscal deficit target for 2017-18 is 3.5 per cent of GDP, based on its policy of improving revenue collections, tax reform measures, phasing out electricity subsidies, and other measures described below. As of 30 June 2016, the Government has eliminated tax exemptions and loopholes worth Rupees 225 billion that had been created through Statutory Regulation Orders (**SROs**) implemented by Pakistan's former government.
- ***GDP Growth.*** Real GDP growth was 4.71 per cent for 2015-16 (4.04 per cent in 2014-15) and is forecast at 5.7 per cent for 2016-17. This has been driven by a general increase in economic activity across the industrial and service sectors, offset by a contraction in growth in the agricultural sector in 2015-16 due to extreme weather conditions and pests.

- **Inflation.** The Government's target for inflation in 2015-16 was 6.0 per cent and actual inflation was 2.86 per cent which was the lowest level in over four decades (4.53 per cent in 2014-15). The inflation target for 2016-17 is also 6.0 per cent. Weak global commodity prices (principally palm and soya oil, crude oil, fertilisers and tea) and better food supply in Pakistan along with prudent fiscal and monetary management helped to reduce inflation. Inflation is expected to plateau in 2016-17. Year on year CPI inflation increased to 4.1 per cent in July 2016, 3.6 per cent in August 2016, and 3.9 per cent in September 2016 from 1.9 per cent, 1.8 per cent and 1.3 per cent in the respective months of last year.
- **Balance of Payments.** The Government has taken measures to increase foreign exchange inflows through accessing the global capital markets, the implementation of structural reforms and prudent fiscal policies. As a result, Pakistan's balance of payments situation has improved significantly since the Government took office in 2013. Foreign exchange reserves (inclusive of reserves held by local banks, but excluding gold reserves) increased to U.S.\$23.1 billion at the end of 2015-16, compared to U.S.\$18.7 billion at the end of 2014-15 and U.S.\$14.1 billion at the end of 2013-14, supported by low global oil prices (which decreased the costs of Pakistan's principal commodity imports, including palm oil, soya oil, crude oil, fertilisers and tea), increased inflow of workers' remittances, State Bank of Pakistan (SBP) interventions and multilateral and bilateral disbursements.
- **Debt.** Pakistan's external debt was approximately 19.5 per cent of GDP at the end of March 2016 and is predicted by the Government to remain at this level for 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 2012-13, 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. However, growth has improved in recent years and real GDP growth averaged 2.8 per cent from 2008-09 to 2012-13 and began to revive in 2013-14 when GDP growth was 4.05 per cent, reaching 4.04 per cent growth in 2014-15 and 4.71 per cent growth in 2015-2016.

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*".

The Government has taken measures to improve the GDP growth trajectory, primarily by implementing financial inclusion initiatives including, in the agricultural sector, to provide producers with crop and livestock insurance and better access to credit. See "*Principal Sectors of the Economy – Financial Services*" and "*Principal Sectors of the Economy – Financial Sector Regulation*".

Despite these improvements Pakistan's growth has been constrained by efforts to combat extremism in the country and Pakistan's GDP growth continues to be affected by infrastructure constraints.

**Poverty Reduction.** During 2015-16, Rupees 1,123 billion was spent under the Poverty Reduction Strategy Paper (PRSP II) aiding Pakistan's economic growth generally, particularly through 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 1,566 (approximately U.S.\$15) per month to eligible families. Currently BISP is

helping 5.3 million poor households across Pakistan through monthly cash grants and currently accounts for approximately 0.5% of GDP. Since 2008 the Government has disbursed approximately Rupees 412 billion in unconditional cash grants. In addition, the Government supports primary school enrolment and provides cash grants of Rupees 250 per child each month. Since 2008, a total of Rupees 2.4 billion in cash grants has been disbursed against an enrolment of an additional 1.3 million children into primary schools.

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 former *Waseela-e-Haq* initiative (described under “*Overview of Pakistan’s Economy – Economic Policy Objectives – Poverty Reduction*”), Rupees 2.2 billion had been disbursed to 13,445 beneficiaries from 2008 to 2013. Under other BISP initiatives, 58,528 individuals from BISP beneficiary families have been provided vocational and technical training, over 4.1 million families have received three years of life and health insurance for income earners. The *Waseela-e-Haq* initiative was discontinued as of December 2013.

BISP is now collaborating with other social and productive organisations in the domain of microfinance and skills training. Under these initiatives more than 120,000 beneficiaries of their family members were provided with microfinance interest free loans and around 17,000 beneficiaries or their family members were given skills training. Home made products of BISP beneficiaries have raised Rupees 1,500,000 in revenue through online sales, directly benefitting the poor families.

In 2015-16, the total budget allocation for BISP was Rupees 102 billion which increased from Rupees 75 billion in 2014-15. Pakistan also receives multilateral funding for BISP, which includes U.S.\$268 million received in 2015-16 from the UK Department for International Development out of a total commitment of U.S.\$480 million between 2012-2020, as well as an estimated U.S. \$120 million received from the Asian Development Bank. The World Bank’s disbursements stand at approximately U.S.\$200 million.

In order to account for the negative impact of inflation on the monthly cash grant awarded under BISP, there has been a gradual increase in payments since July 2013 from Rupees 1,000 to Rupees 1,566 per month per family.

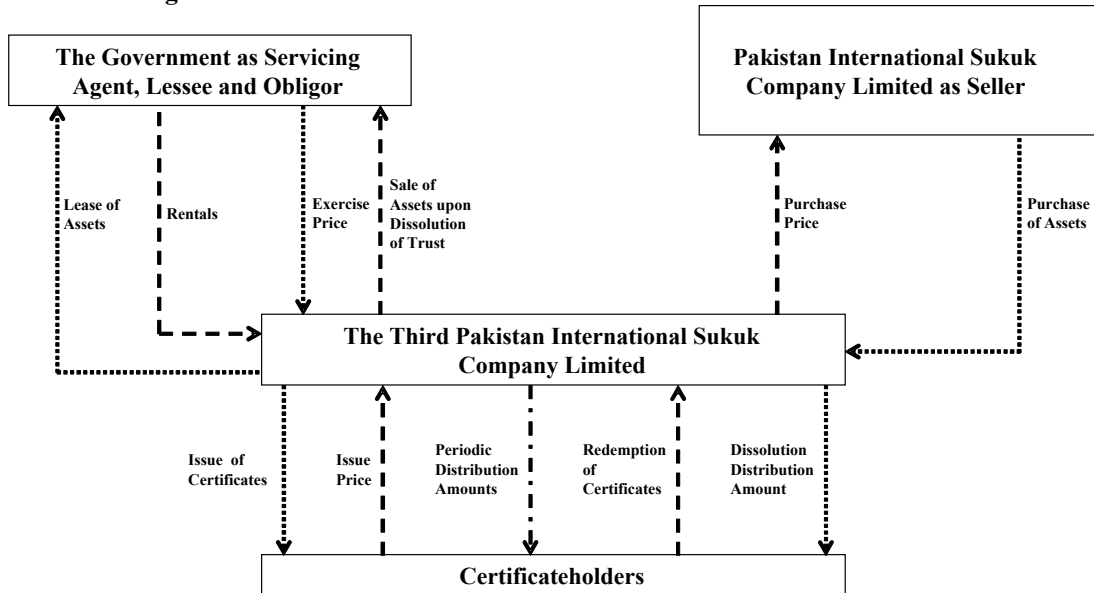
**Improved Governance.** The Government gives a high priority to improving national governance. While initial actions focused on accountability, especially with respect to loan and tax defaulters, the Government has implemented a series of reform measures the key elements of which include devolution and decentralisation of state power to the local level through local body elections, 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 in 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 a certain part of 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 Third Pakistan International Sukuk Company Limited (Corporate Universal Identification No. 0102335) (in its capacity as issuer, the Issuer and in its capacity as trustee, the Trustee), a public limited company incorporated in Pakistan on 15 September 2016 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 13 April and 13 October in each year, commencing on 13 April 2017 and to and including 13 October 2021 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 **Servicing Agent**). 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.

**Joint Lead Managers:**

Citigroup Global Markets Limited  
Deutsche Bank AG, London Branch  
Dubai Islamic Bank PJSC  
Noor Bank PJSC  
Standard Chartered Bank

**Delegate:**

The Law Debenture Trust Corporation p.l.c. (the **Delegate**). 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.

**Principal Paying Agent:**

Citibank N.A., London Branch

**Transfer Agent:**

Citibank, N.A., London Branch

**Registrar:**

Citigroup Global Markets Deutschland AG

**Summary of the Structure and Transaction Documents:**

**Summary of the Structure:**

An overview of the structure of the transaction and the principal cash flows is set out in the section entitled "*Structure Diagram and Cash Flows*".

**Summary of the Transaction Documents:**

A description of the principal terms of the significant Transaction Documents is set out in the section entitled "*Summary of the Principal Transaction Documents*".

**Summary of the Certificates:**

**Certificates:**

U.S.\$1,000,000,000 trust certificates due 2021.

**Status of Certificates:**

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 *pari passu*, without any preference or priority, with the other Certificates issued in accordance with the Conditions.

**Status of the Government's**

The payment obligations of the Government under the Transaction Documents are direct, unconditional and

<b>Obligations:</b>	(subject to the provisions of Condition 4) unsecured obligations of the Government and (subject as provided above) rank and will rank <i>pari passu</i> , 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.
<b>Trust Assets:</b>	<p>Pursuant to the Declaration of Trust, the Trustee will declare that it will hold certain assets (the <b>Trust Assets</b>), consisting of:</p> <ul style="list-style-type: none"> <li>(a) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Lease Assets;</li> <li>(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);</li> <li>(c) all monies standing to the credit of the Transaction Account from time to time; and</li> <li>(d) all proceeds of the foregoing,</li> </ul> <p>on trust absolutely for the Certificateholders as owners and beneficiaries <i>pro rata</i> according to the face amount of Certificates held by each holder of Certificates, in accordance with the Declaration of Trust and the Conditions.</p>
<b>Issue Date:</b>	13 October 2016.
<b>Issue Price:</b>	100 per cent. of the aggregate face amount of the Certificates.
<b>Periodic Distribution Dates:</b>	Each of 13 April and 13 October in each year commencing on 13 April 2017 and, subject to Condition 7 ( <i>Periodic Distributions</i> ), ending on the Scheduled Dissolution Date.
<b>Periodic Distribution Amounts:</b>	On each Periodic Distribution Date, the Certificateholders will receive a Periodic Distribution Amount determined in accordance with Condition 7 ( <i>Periodic Distributions</i> ) 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.
<b>Scheduled Dissolution Date:</b>	13 October 2021.
<b>Scheduled Dissolution of the</b>	Upon receipt by the Trustee of the Exercise Price payable in accordance with the terms of the Purchase

**Trust:** 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.

**Dissolution Distribution Amount:** In relation to each Certificate, means the aggregate of:

- (a) the outstanding face amount of such Certificate; and
- (b) all accrued and unpaid Periodic Distribution Amounts in respect of such Certificate.

**Early Dissolution of the Trust:** The Trust may only be dissolved prior to the Scheduled Dissolution Date upon the occurrence of:

- (a) a Dissolution Event which is continuing; or
- (b) a Total Loss Event.

In the case of paragraph (a), the Certificates will be redeemed in accordance with Condition 9.2 (*Capital Distributions of the Trust — Dissolution Following a Dissolution Event*) 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.

In the case of paragraph (b) the Certificates will be redeemed in accordance with Condition 9.3 (*Capital Distributions of the Trust — Dissolution following a Total Loss Event*).

**Dissolution Events:** The Dissolution Events are described in Condition 13 (*Dissolution Events*). 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 (*Dissolution Events*).

**Total Loss Event:** 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 (*Capital Distributions of the Trust — Dissolution following a Total Loss Event*) 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 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.

### **Purchase of Certificates held by the Issuer or the Government:**

The Issuer or the Government may at any time purchase Certificates in the open market or otherwise.

### **Transaction Account:**

The U.S. dollar account (the **Transaction Account**) maintained in the name of the Trustee with the

Principal Paying Agent.

**Limited Recourse and Non-Petition:**

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.

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.

Certificateholders will not be able to institute against, or join with any other person in instituting against, The Third Pakistan International Sukuk Company Limited any bankruptcy, reorganisation, arrangement or liquidation proceedings or other proceedings under any bankruptcy or similar law.

**Role of Delegate:**

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:

- (a) deliver an Exercise Notice to the Government in accordance with the Purchase Undertaking; and
- (b) following a Dissolution Event, take any enforcement action against the Government in the Trustee's name.

**Face Amounts of Certificates:**

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.

**Form and Delivery of the Certificates:**

The Certificates are (1) Regulation S Certificates and (2) Rule 144A Certificates.

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 depository 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, 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.

**Use of Proceeds:**

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>	Provisions for convening meetings of Certificateholders to consider matters relating to their interests as such are set out in Condition 17 ( <i>Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination</i> ) and 18 ( <i>Aggregation Agent; Aggregation Procedures</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 'B3' by Moody's Singapore Pte Ltd (<b>Moody's</b>) and a rating of 'B' by Fitch (Hong Kong) Limited (<b>Fitch</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 subject to revision, suspension or withdrawal at any time by the assigning rating organisation.</i></p>
<b>Selling Restrictions:</b>	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. The Issuer believes that the factors described below represent the principal risks inherent in investing in the Certificates, but the Issuer may be unable to pay any amounts on or in connection with any Certificate for other reasons and the Issuer does not represent 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 Issuer or which 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 certificates, the acquisition of assets for that purpose, acting in the capacity as trustee and other activities incidental or related to the foregoing.

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**

***Failure to implement economic reforms may have a negative 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 and has already achieved significant targets set in relation to macroeconomic reform, there remain macroeconomic challenges to achieving sustained growth including: further fiscal consolidation, structural reforms, improving infrastructure, enhancing tax revenues, reducing public debt levels, strengthening the balance of payments and reserves (by increasing exports and FDI, both of which remain lower than the Government has targeted), maintaining low inflation, improving the social safety net, privatisation of SOEs, and reducing shortfalls in energy through the China Pakistan Economic Corridor (**CPEC**) (as further described under "*Relations with China*" below) and other projects. For further information see – "*Risk Factors - The Government's plans for growth are dependent on its ability to increase the capacity of the energy sector*" below.

In addition, following successful completion of the IMF Extended Facility Fund programme, a key challenge will be to consolidate and reinforce the gains without a formal programme, in the face of either global economic shocks or domestic pressure.

Although the Government has undertaken initiatives to increase the number of tax payers through the issue of additional notices to potential tax payers, to reduce tax concessions and

tax exemptions, to strengthen Pakistan's tax administration, and to implement penal measures applicable to non-filers, Pakistan's tax-to-GDP ratio remains low compared to other emerging markets and tax collection targets may not be met, which may impact budgeted revenue receipts. In addition, efforts to increase the number of corporate taxpayers have continued but have met with a degree of resistance (such as recent protests against the financial withholding tax) and there can be no assurance such efforts will be successful. 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 purchases in the foreign exchange market. 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. However, the level of foreign reserves still remains relatively low and includes a proportion of grants and loans. See "*Balance of Payments and Foreign Trade*" and "*Public Debt*".

To date, a number of privatizations have been delayed for various internal and external factors. A failure to achieve the targeted privatisations due to negative conditions in the international and/or domestic markets could have a material impact on Pakistan's budget performance and put further pressure on the budget deficit. The Government has prepared an action plan for privatisation of 39 key SOEs in the power, oil and gas, banking, insurance, infrastructure, telecoms, real estate and industrial sectors. The five-year privatisation plan is expected to primarily use a combination of domestic and international capital market transactions or strategic sales for the divestment of SOEs to raise substantial revenues. Although the government has stated that it is committed to its privatisation policy, certain privatisations including the Government's divestment of its stake in Pakistan International Airlines were delayed in 2014, 2015 and 2016 due to market conditions, low oil prices and legal obstacles. Pakistan International Airlines was corporatised in 2016 in order to improve governance. The Government has nevertheless successfully completed four capital market transactions since April 2014; an offering of the Government of Pakistan's 19.8 per cent ownership in United Bank Limited in June 2014, an offering of 5 per cent of the Government of Pakistan's ownership in Pakistan Petroleum Limited in June 2014, an offering of the Government of Pakistan's 11.5 per cent ownership in Allied Bank Limited in December 2014 and an offering of the Government of Pakistan's 41.5 per cent ownership in Habib Bank Limited in April 2015. Furthermore, the Government successfully completed the strategic sale of its 88 per cent ownership in National Power Construction Corporation (Pvt.) Limited in September 2015. In total, the Privatisation Commission has raised Rupees 170.87 billion, including over U.S.\$1.128 billion in foreign exchange, from these completed transactions. Accordingly, any further delays could have a negative impact on Pakistan's fiscal policy. See "*Overview of Pakistan's Economy – Structural Economic Reforms*" for further information.

***The Government's plans for growth are dependent on its ability to increase the capacity of the energy sector.*** The shortage of reliable electricity supply remains an impediment to Pakistan's economic growth and development. The Government launched its National Power Policy in 2013 to address the energy shortfall and to promote sustainable increases in the energy supply. Several initiatives have been implemented, including the restriction of consumer subsidies, the clearance of Rupees 330 billion of payment arrears by the end of 2016-17, improving prosecution of electricity theft and the increase of tariffs to reflect actual fuel prices. Supply side expansion added an additional 2,500 MW in generation capacity in 2014-15 and 2015-16. See "*Overview of Pakistan's Economy – Energy in Pakistan*".

***Hostilities, insurgencies, terrorist attacks, civil unrest and other acts of violence could negatively affect Pakistan's economy.*** After the events of 9/11, Pakistan assumed the role of a frontline state in the global Fight against Extremism. 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 Extremism which has cost more than 61,031 lives, has caused the erosion of the

investment climate and has reduced economic activity in many parts of Pakistan. In December 2014, seven gunmen affiliated with the *Tehreek-i-Taliban* conducted a terrorist attack on the Army Public School in the northwestern Pakistani city of Peshawar killing 145 people, including 132 schoolchildren. In March 2016, at least 74 people were killed and 338 others were injured in a suicide bombing in a public park in Lahore. In August 2016, 70 people were killed and over 120 injured in a suicide bombing at the Government Hospital of Quetta. For further information see “*The Islamic Republic of Pakistan – Fight against Extremism*”.

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 in its final phase, and the rate of terrorist activity has declined. 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 threat both regionally and in Pakistan.

Kashmir remains an on-going source of tension between India and Pakistan. For further information see “*The Islamic Republic of Pakistan – Fight against Extremism*” 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 a negative impact on the economy.

***Political instability, any change in Government and/or significant changes in Government policy may negatively 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, succeeding a previously elected democratic government. Pakistan has, periodically, had military governments for an aggregate of 33 of its 69 years of independence and other elected governments were unable to complete their terms. The leak of documents created by Panamanian law firm and corporate service provider Mossack Fonseca in April 2016 connected a number of prominent Pakistani individuals to that firm. In response, the Pakistan Tehreek-e-Insaf (PTI) called for other opposition parties to join it in a protest march near Raiwind, just five kilometers from Prime Minister’s family residence, which took place on 30 September 2016. Tensions between the PML-N and PTI are high and PML-N workers raised a force to deter PTI supporters from marching to Raiwind. Political instability could negatively affect the performance of the Pakistani economy and could have a material negative effect on the Issuer’s ability to service and repay the Certificates.

***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 and extensive flooding in 2014 and 2015. 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. Floods in 2015 resulted in the deaths of around 238 people whilst nearly 10,700 homes were damaged in around 411 villages, and some 1,572,191 people displaced, according to the National Disaster Management Authority. The 2015 floods also significantly affected Pakistan’s agriculture sector (particularly the cotton industry) which had been predicted to grow by 3.9 per cent. in 2015-16 but, principally as a result of floods and a pest attack, contracted by 0.19 per cent. The occurrence of natural disasters or severe climatic conditions, such as earthquakes or prolonged spells of abnormal rainfall or drought, could have a negative impact on Pakistan’s economy. Moreover, efforts to mitigate extreme climatic conditions, such as floods, would require very significant funding, which could have a negative impact on Pakistan’s fiscal situation.



**Failure to adequately address actual and perceived risks of corruption may negatively 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 117 out of 167 in Transparency International's 2015 Corruption Perceptions Index. This is an improvement on its ranking in previous years - 126 out of 176 in 2014 and 127 out of 177 in 2013.

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 detect and report financial crime to the relevant 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 extremism and criminalise money laundering. There have been a number of high-profile prosecutions 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 in a timely manner, corruption in the public sector and any future allegations of or perceived risk of corruption in Pakistan could have a negative 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 negatively affect prices in the financial markets of all emerging market countries as investors move their money to more stable, developed markets. Significant changes in global macroeconomic conditions such as global monetary policies (notably in the U.S. and E.U.), global commodity prices and economic conditions in major international markets including China, can impact capital and financing flows and have a significant impact. Thus, even if Pakistan's economy is stable, financial turmoil in the global financial markets could negatively 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 Government's credit rating could be downgraded, impacting its access to foreign debt.** Moody's current rating of the Government is B3 (stable), Moody's revised its outlook on the Government from Caa1 to B3 on 11 June 2015. Fitch's long-term rating of the Government is B (stable). However, despite improving macroeconomic indicators, including benefits from falling global oil prices, the level of foreign exchange reserves and fiscal consolidation efforts, any downgrade of the Government's bonds would likely affect the

Government's ability to raise foreign debt, which could negatively affect the Pakistani economy.

***Effects of the Volcker Rule on the Issuer.*** The Issuer is relying on an exclusion or exemption under the Investment Company Act other than the exclusions contained in Section 3(c)(1) and Section 3(c)(7). The Issuer was structured so as not to constitute a "covered fund" for purposes of the regulations adopted under Section 13 of the Bank Holding Company Act of 1956, as amended (commonly known as the Volcker Rule). The Volcker Rule generally prohibits "banking entities" (which is broadly defined to include U.S. banks and bank holding companies and many non-U.S. banking entities, together with their respective subsidiaries and other affiliates) from (i) engaging in proprietary trading, (ii) acquiring or retaining an ownership interest in or sponsoring a "covered fund" and (iii) entering into certain relationships with such funds. Under the Volcker Rule, unless otherwise jointly determined by specified federal regulators, a "covered fund" does not include an issuer that satisfies all of the elements of the exemption from registration under the Investment Company Act provided by Section 3(c)(5)(C) of the Investment Company Act. The Volcker Rule became effective on 1 April 2014, but was subject to a conformance period for certain funds which concluded on 21 July 2015. The general effects of the Volcker Rule remain uncertain. Any prospective investor in the Certificates, including a U.S. or foreign bank or a subsidiary or other affiliate thereof, should consult its own legal advisers regarding such matters and other effects of the Volcker Rule.

## **Risk factors relating to the Certificates**

***The terms of the Certificates may be modified or waived without the consent of all the Certificateholders.*** The Conditions contain provisions for calling meetings of Certificateholders to consider matters affecting their interests generally and for the passing of written resolutions of Certificateholders without the need for a meeting. Such provisions are commonly referred to as “collective action clauses”. These provisions permit defined majorities to bind all Certificateholders including Certificateholders who did not attend and vote at the relevant meeting or sign the relevant written resolution and Certificateholders who voted in a manner contrary to the majority.

In the future, the Issuer and the Government may issue securities which contain collective action clauses in the same form as the collective action clauses in the Conditions. If this occurs, the Certificates could be capable of aggregation with any such future securities, meaning that a defined majority of the holders of such securities (when taken in the aggregate) would be able to bind all holders of all the relevant aggregated series of securities, including the Certificates.

Any modification or actions relating to any Reserved Matter (as defined in the Conditions), including in respect of payments and other important terms, may be made (a) to the Certificates with the consent of the holders of 75 per cent of the aggregate face amount of the outstanding Certificates, and (b) to multiple series of securities which may be issued by the Issuer (including the Certificates) or the Government, as the case may be, with the consent of both (i) the holders of at least two thirds of the aggregate face amount of all outstanding securities being aggregated and (ii) the holders of at least 50 per cent in aggregate face amount of the outstanding securities of each series being aggregated. In addition, under certain circumstances, including the satisfaction of the Uniformly Applicable condition (as more particularly described in the Conditions), any such modification or action relating to any Reserved Matter may be made to multiple series of the Issuer's securities (including the Certificates) or the Government's securities, as the case may be, with the consent of 75 per cent of the aggregate face amount of the outstanding securities of all affected series, without requiring a particular percentage of the holders of any individual affected securities to vote in favour of or approve any proposed modification or action. Any modification or action proposed by the Issuer, or the Government as the case may be, may, as the option of the Issuer or the Government, as the case may be, be made in respect of certain series of securities only and, for the avoidance of doubt, the collective action provisions may be used for different groups of two or more securities simultaneously. At the time of any proposed modification or action, the Issuer or the Government, as the case may be, will be obliged, inter alia, to specify which method or methods of aggregation will be used by the Issuer or the Government, as the case may be.

There is therefore a risk that the Conditions may be amended, modified or waived in circumstances whereby the holders of securities voting in favour of or signing a written resolution in respect of an amendment, modification or waiver may be holders of different series of securities and, as such, the majority of Certificateholders would not necessarily have voted in favour of or signed a written resolution in respect of such amendment, modification or waiver. In addition, there is a risk that the provisions allowing for aggregation across multiple series of securities may make the Certificates less attractive to purchasers in the secondary market on the occurrence of a Dissolution Event or in a distress situation.

The Conditions also contain a provision permitting the Certificates and the Conditions to be amended without the consent of the Certificateholders to correct a manifest error, or where the modification is of a formal, minor or technical nature or is not materially prejudicial to the interests of the Certificateholders.

Any such amendment, modification or waiver in relation to the Certificates may adversely affect their trading price.

***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 U.S. 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 U.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. 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 U.S. and other countries comply with applicable securities laws. See "Transfer Restrictions".

***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 investments 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 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 Fitch and "B3" 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.

***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.

***Indirect exposure to sanctions targets.*** 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. In particular, as described in "*Energy in Pakistan - LNG*", the Government has entered into an arrangement involving Russian counterparties listed on the on the Sectoral Sanctions Identifications List maintained by OFAC for the laying of a LNG pipeline. 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.

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

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

***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 Certificates that will be deposited with a custodian for DTC and one or more Regulation S Global Certificates 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, the Executive Committee of the Fatwa & Shariah Advisory Board of Dubai Islamic Bank PJSC, the Shari'a Supervisory Committee of Noor Bank PJSC and the Shari'a Supervisory Committee of Standard Chartered Bank have confirmed 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.

***Investors who hold less than U.S.\$200,000 in principal amount of the Certificates may be unable to sell their Certificates and may be adversely affected if definitive Certificates are subsequently required to be issued*** As the denomination of the Certificates is U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof, it is possible that such Certificates may be traded in amounts in excess of U.S.\$200,000 that are not integral multiples of U.S.\$200,000. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than U.S.\$200,000 in his account with the

relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Certificates at or in excess of U.S.\$200,000 such that his holding amounts to at least U.S.\$200,000. Further, a holder who, as a result of trading such amounts, holds an amount which is less than U.S.\$200,000 in his account with the relevant clearing system at the relevant time may not receive a definitive Certificate in respect of such holding (should definitive Certificates be printed) and would need to purchase a principal amount of Certificates at or in excess of U.S.\$200,000 such that his holding amounts to an integral multiple of U.S.\$200,000.

If such Certificates in definitive form are issued, holders should be aware that definitive Certificates which have a denomination that is not an integral multiple of U.S.\$200,000 may be illiquid and difficult to trade.

***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 2021 (the **Certificates**) will be issued by The Third Pakistan International Sukuk Company Limited (the **Issuer**) on 13 October 2016 (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 13 October 2016 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 The Law Debenture Trust Corporation p.l.c. 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 13 October 2016 (the **Agency Agreement**) made between the Issuer, the Trustee, the Government, the Delegate, Citibank N.A., London Branch as principal paying agent (in such capacity, the **Principal Paying Agent** and, together with any further or other paying agents appointed from time to time in respect of the Certificates, the **Paying Agents**), Citigroup Global Markets Deutschland AG as registrar (in such capacity, the **Registrar**), and Citibank N.A., London Branch as Transfer Agent (in such capacity, the **Transfer Agent**). The Paying Agents, Registrar and the Transfer Agent 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 S.A. (**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 Registrar 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 the Transfer Agent.

*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 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 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 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 the Transfer Agent but upon payment (or the giving of such indemnity as the Issuer or the 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 Registrar and the Delegate. A copy of the current regulations will be mailed (free of charge) by the 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.
- (e) *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 13 October 2016 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 13 October 2016. Under a servicing agency agreement (the **Servicing Agency Agreement**) to be dated on or about 13 October 2016 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 13 October 2016 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 13 October 2016 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

- (a) Subject to Condition 6(b) below, 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):
  - (i) 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;
  - (ii) 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);
  - (iii) 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;
  - (iv) use the proceeds of the issue of the Certificates for any purpose other than as stated in the Transaction Documents;
  - (v) amend or agree to any amendment of any Transaction Document to which it is a party or its articles of association;
  - (vi) act as trustee in respect of any trust other than the Trust or in respect of any parties other than the Certificateholders;
  - (vii) have any subsidiaries or employees;
  - (viii) redeem or purchase any of its shares or pay any dividend or make any other distribution to its shareholders;
  - (ix) 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



- (x) 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:
  - (A) any such contract, transaction, amendment, obligation or liability in relation to its operations that is of a routine or administrative nature;
  - (B) as provided for or permitted in the Transaction Documents;
  - (C) the ownership, management and disposal of the Trust Assets as provided in the Transaction Documents; and
- (xi) such other matters which are incidental thereto.
- (b) Nothing in paragraphs (i), (vi) and (x) of Condition 6(a) above shall prevent the Issuer from issuing (or entering into any transaction for the purpose of issuing or entering into any contract in relation thereto or performing any of its obligations thereunder) any trust certificates (the **Further Certificates**) intended to be issued in compliance with the principles of *Shari'a* provided that (i) such Further Certificates are admitted to listing on a stock exchange in Europe; (ii) such Further Certificates do not evidence, and any contract entered into by the Issuer and/or the Government in relation thereto do not convey, any interest in the Trust Assets; (iii) in respect of such Further Certificates, the obligations of the Government to the Issuer shall rank at least *pari passu* with the obligations of the Government to the Issuer under the Transaction Documents and in respect of the Certificates; and (iv) the obligations of the Issuer in respect of such Further Certificates shall rank *pari passu*, without any preference or priority, with the Certificates.

## 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 5.50 per cent. per annum (the **Periodic Distribution Rate**) of the face amount of the Certificates. For this purpose, **Periodic Distribution Date** means each of 13 April and 13 October in each year commencing on 13 April 2017 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 U.S.\$1,000 is U.S.\$27.50.

### 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 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 it will at all times maintain a Principal Paying Agent and a Registrar (which may be the same entity). 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 13 October 2021 (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.

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.

If the Issuer receives notice in writing from holders of at least 50 per cent. in aggregate face amount of the outstanding Certificates to the effect that the Dissolution Event or Dissolution Events giving rise to any Dissolution Notice is or are cured following any such Dissolution Notice and that such holders wish the relevant Dissolution Notice to be withdrawn, the Issuer shall, give notice thereof to the Certificateholders (with a copy to the Trustee and Delegate), whereupon the relevant declaration shall be withdrawn and shall have no further effect but without prejudice to any rights or obligations which may have arisen before the Issuer gives such notice (whether pursuant to these Conditions or otherwise). No such withdrawal shall affect any other or any subsequent Dissolution Event or any right of any Certificateholder in relation thereto.

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 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 Registrar. 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 Convening Meetings of Certificateholders; Conduct of Meetings of Certificateholders; Written Resolutions

- (a) The Trustee, the Government or the Delegate may convene a meeting of the Certificateholders at any time in respect of the Certificates in accordance with the Declaration of Trust. The Trustee, the Government or the Delegate, as the case may be, will determine the time and place of the meeting. Provided that, in the case of a meeting convened by the Trustee or the Government, the time and place of such meeting shall be subject to the prior written approval of the Delegate. The Trustee, the Government or the Delegate, as the case may be, will notify the Certificateholders of the time, place and purpose of the meeting not less than 21 and not more than 45 days before the meeting.
- (b) The Delegate, will convene a meeting of Certificateholders if the holders of at least 10 per cent in face amount of the outstanding Certificates (as defined in the Declaration of Trust and described in Condition 17.9 (*Certificates controlled by the Trustee or the Government*)) have delivered a written request to the Delegate setting out the purpose of the meeting. The Delegate will agree the time and place of the meeting with the Trustee promptly. The Delegate will notify the Certificateholders within 10 days of receipt of such written request of the time and place of the meeting, which shall take place not less than 21 and not more than 45 days after the date on which such notification is given.
- (c) The Delegate will set the procedures governing the conduct of any meeting in accordance with the Declaration of Trust. If the Declaration of Trust does not include such procedures, or additional procedures are required, the Trustee, the Government and the Delegate will agree such procedures as are customary in the market and in such a manner as to facilitate any multiple series aggregation, if in relation to a Reserved Matter the Trustee or the Government, as the case may be, proposes any modification to the terms and conditions of, or action with respect to, two or more series of securities issued by it.
- (d) The notice convening any meeting will specify, *inter alia*;
  - (i) the date, time and location of the meeting;
  - (ii) the agenda and the text of any Extraordinary Resolution to be proposed for adoption at the meeting;
  - (iii) the record date for the meeting, which shall be no more than five Business Days before the date of the meeting;
  - (iv) the documentation required to be produced by a Certificateholder in order to be entitled to participate at the meeting or to appoint a proxy to act on the Certificateholder's behalf at the meeting;
  - (v) any time deadline and procedures required by any relevant international and/or domestic clearing systems or similar through which the Certificates are traded and/or held by Certificateholders;
  - (vi) whether Condition 17.2 (*Modification of this Series of Certificates only*), or Condition 17.3 (*Multiple Series Aggregation – Single limb voting*), or Condition 17.4 (*Multiple Series Aggregation – Two limb voting*) shall apply and, if relevant, in relation to which other series of securities it applies;
  - (vii) if the proposed modification or action relates to two or more series of securities issued by it and contemplates such series of securities being

aggregated in more than one group of securities, a description of the proposed treatment of each such group of securities;

- (viii) such information that is required to be provided by the Trustee or the Government, as the case may be, in accordance with Condition 17.6 (*Information*);
  - (ix) the identity of the Aggregation Agent and the Calculation Agent, if any, for any proposed modification or action to be voted on at the meeting, and the details of any applicable methodology referred to in Condition 17.7 (*Claims Valuation*); and
  - (x) any additional procedures which may be necessary and, if applicable, the conditions under which a multiple series aggregation will be deemed to have been satisfied if it is approved as to some but not all of the affected series of securities.
- (e) In addition, the Declaration of Trust contains provisions relating to Written Resolutions. All information to be provided pursuant to Condition 17.1(d) (*Convening Meetings of Certificateholders; Conduct of Meetings of Certificateholders; Written Resolutions*) shall also be provided, *mutatis mutandis*, in respect of Written Resolutions.
- (f) A **record date** in relation to any proposed modification or action means the date fixed by the Trustee or the Government, as the case may be, for determining the Certificateholders and, in the case of a multiple series aggregation, the holders of securities of each other affected series that are entitled to vote on a Multiple Series Single Limb Extraordinary Resolution or a Multiple Series Two Limb Extraordinary Resolution, or to sign a Multiple Series Single Limb Written Resolution or a Multiple Series Two Limb Written Resolution.
- (g) An **Extraordinary Resolution** means any of a Single Series Extraordinary Resolution, a Multiple Series Single Limb Extraordinary Resolution and/or a Multiple Series Two Limb Extraordinary Resolution, as the case may be.
- (h) A **Written Resolution** means any of a Single Series Written Resolution, a Multiple Series Single Limb Written Resolution and/or a Multiple Series Two Limb Written Resolution, as the case may be.
- (i) Any reference to **securities** means any trust certificates (including the Certificates), notes, bonds, debentures or other securities issued by the Trustee or the Government, as the case may be, in one or more series with an original stated maturity of more than one year.
- (j) **Securities Capable of Aggregation** means those securities which include or incorporate by reference this Condition 17 (*Meetings of Certificateholders; Written Resolutions*) and Condition 18 (*Aggregation Agent; Aggregation Procedures*) or provisions substantially in these terms which provide for the securities which include such provisions to be capable of being aggregated for voting purposes with other series of securities.

## 17.2 **Modification of this Series of Certificates only**

- (a) Any modification of any provision of, or any action in respect of, these Conditions or any Transaction Document in respect of the Certificates may be made or taken if approved by a Single Series Extraordinary Resolution or a Single Series Written Resolution as set out below.
- (b) A **Single Series Extraordinary Resolution** means a resolution passed at a meeting of Certificateholders duly convened and held in accordance with the procedures prescribed by the Trustee or the Government, as the case may be,

and the Delegate pursuant to Condition 17 (*Convening Meetings of Certificateholders; Conduct of Meetings of Certificateholders; Written Resolutions*) by a majority of:

- (i) in the case of a Reserved Matter, at least 75 per cent of the aggregate face amount of the outstanding Certificates; or
  - (ii) in the case of a matter other than a Reserved Matter, more than 50 per cent of the aggregate face amount of the outstanding Certificates.
- (c) A **Single Series Written Resolution** means a resolution in writing signed or confirmed in writing by or on behalf of the holders of:
- (i) in the case of a Reserved Matter, at least 75 per cent of the aggregate face amount of the outstanding Certificates; or
  - (ii) in the case of a matter other than a Reserved Matter more than 50 per cent of the aggregate face amount of the outstanding Certificates.
- (d) Any Single Series Written Resolution may be contained in one document or several documents in the same form, each signed or confirmed in writing by or on behalf of one or more Certificateholders.
- (e) Any Single Series Extraordinary Resolution duly passed or Single Series Written Resolution approved shall be binding on all Certificateholders, whether or not they attended any meeting, whether or not they voted in favour thereof and whether or not they signed or confirmed in writing any such Single Series Written Resolution, as the case may be.

### 17.3 **Multiple Series Aggregation – Single limb voting**

- (a) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Single Limb Extraordinary Resolution or by a Multiple Series Single Limb Written Resolution as set out below, provided that the Uniformly Applicable condition is satisfied.
- (b) A **Multiple Series Single Limb Extraordinary Resolution** means a resolution considered at separate meetings of the holders of each affected series of Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Trustee or the Government, as the case may be, and the Delegate pursuant to Condition 17 (*Convening Meetings of Certificateholders; Conduct of Meetings of Certificateholders; Written Resolutions*), as supplemented if necessary, which is passed by a majority of at least 75 per cent of the aggregate face amount of the outstanding securities of all affected series of Securities Capable of Aggregation (taken in aggregate).
- (c) A **Multiple Series Single Limb Written Resolution** means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Securities Capable of Aggregation, in accordance with the applicable securities documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of at least 75 per cent of the aggregate face amount of the outstanding securities of all affected series of Securities Capable of Aggregation (taken in aggregate). Any Multiple Series Single Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Certificateholders or one or more holders of each affected series of securities.

- (d) Any Multiple Series Single Limb Extraordinary Resolution duly passed or Multiple Series Single Limb Written Resolution approved shall be binding on all Certificateholders and holders of each other affected series of Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Single Limb Written Resolution, as the case may be.
- (e) The **Uniformly Applicable** condition will be satisfied if:
  - (i) the holders of all affected series of Securities Capable of Aggregation are invited to exchange, convert, or substitute their securities, on the same terms, for (i) the same new instrument or other consideration or (ii) a new instrument, new instruments or other consideration from an identical menu of instruments or other consideration; or
  - (ii) the amendments proposed to the terms and conditions of each affected series of Securities Capable of Aggregation would, following implementation of such amendments, result in the amended instruments having identical provisions (other than provisions which are necessarily different, having regard to different currency of issuance).
- (f) Any modification or action proposed under Condition 17.3(a) above may be made in respect of some series only of the Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 17.3 may be used for different groups of two or more series of Securities Capable of Aggregation simultaneously.

#### 17.4 **Multiple Series Aggregation – Two limb voting**

- (a) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Two Limb Extraordinary Resolution or by a Multiple Series Two Limb Written Resolution as set out below.
- (b) A **Multiple Series Two Limb Extraordinary Resolution** means a resolution considered at separate meetings of the holders of each affected series of Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Trustee or the Government, as the case may be, and the Delegate pursuant to Condition 17.1 (*Convening Meetings of Certificateholders; Conduct of Meetings of Certificateholders; Written Resolutions*), as supplemented if necessary, which is passed by a majority of:
  - (i) at least 66  $\frac{2}{3}$  per cent of the aggregate face amount of the outstanding securities of affected series of Securities Capable of Aggregation (taken in aggregate); and
  - (ii) more than 50 per cent of the aggregate face amount of the outstanding securities in each affected series of Securities Capable of Aggregation (taken individually).
- (c) A **Multiple Series Two Limb Written Resolution** means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Securities Capable of Aggregation, in accordance with the applicable securities documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of:

- (i) at least 66  $\frac{2}{3}$  per cent of the aggregate face amount of the outstanding securities of all the affected series of Securities Capable of Aggregation (taken in aggregate); and
  - (ii) more than 50 per cent of the aggregate face amount of the outstanding securities in each affected series of Securities Capable of Aggregation (taken individually).
- (d) Any Multiple Series Two Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Certificateholders or one or more holders of each affected series of Securities Capable of Aggregation.
  - (e) Any Multiple Series Two Limb Extraordinary Resolution duly passed or Multiple Series Two Limb Written Resolution approved shall be binding on all Certificateholders and holders of each other affected series of Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Two Limb Written Resolution, as the case may be.
  - (f) Any modification or action proposed under paragraph 17.4(a) above may be made in respect of some series only of the Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 17.4 may be used for different groups of two or more series of Securities Capable of Aggregation simultaneously.

#### 17.5 **Reserved Matters**

In these Conditions, **Reserved Matter** means any proposal:

- (a) to change the date, or the method of determining the date, for payment of the Dissolution Distribution Amount any Periodic Distribution Amount or any other amount in respect of the Certificates, to reduce or cancel the Dissolution Distribution Amount any Periodic Distribution Amount or any other amount payable on any date in respect of the Certificates or to change the method of calculating the Dissolution Distribution Amount any Periodic Distribution Amount or any other amount payable in respect of the Certificates on any date;
- (b) to change the currency in which any amount due in respect of the Certificates is payable or the place in which any payment is to be made;
- (c) to change the majority required to pass an Extraordinary Resolution, a Written Resolution or any other resolution of Certificateholders or the number or percentage of votes required to be cast, or the number or percentage of Certificates required to be held, in connection with the taking of any decision or action by or on behalf of the Certificateholders or any of them;
- (d) to change this definition, or the definition of “Extraordinary Resolution”, “Single Series Extraordinary Resolution”, “Multiple Series Single Limb Extraordinary Resolution”, “Multiple Series Two Limb Extraordinary Resolution”, “Written Resolution”, “Single Series Written Resolution”, “Multiple Series Single Limb Written Resolution” or “Multiple Series Two Limb Written Resolution”;
- (e) to change the definition of “securities” or “Securities Capable of Aggregation”;
- (f) to change the definition of “Uniformly Applicable”;
- (g) to change the definition of “outstanding” or to modify the provisions of Condition 17.9 (*Certificates controlled by the Trustee or the Government*);

- (h) to change the legal ranking of the Certificates;
- (i) to change any provision of the Certificates describing circumstances in which Certificates may be declared due and payable prior to their scheduled maturity date, as set out in Condition 13 (*Dissolution Events*);
- (j) to change the law governing the Certificates, the courts to the jurisdiction of which each of the Trustee and the Government has submitted in the Certificates, any of the arrangements specified in the Certificates to enable proceedings to be taken, in respect of actions or proceedings brought by any Certificateholder, as set out in Condition 21 (*Governing Law and Jurisdiction*);
- (k) to impose any condition on or otherwise change the Trustee's obligation to make payments of any amount in respect of the Certificates, including by way of the addition of a call option;
- (l) except as permitted by any Transaction Document, to release any agreement guaranteeing or securing payments under the Certificates or to change the terms of any such guarantee or security;
- (m) to amend any of the Trustee's or the Government's covenants in the Declaration of Trust and (in the case of the Government only) in the Lease Agreement or any of the Government's covenants or undertakings to make a payment under any Transaction Document to which it is a party;
- (n) to exchange or substitute all the Certificates for, or convert all the Certificates into, other obligations or securities of the Trustee, the Government or any other person, or to modify any provision of these Conditions, the Certificates, the Declaration of Trust or any other Transaction Document in connection with any exchange or substitution of the Certificates for, or the conversion of the Certificates into, any other obligations or securities of the Trustee, the Government or any other person, which would result in the Conditions as so modified being less favourable to the Certificateholders which are subject to the Conditions as so modified than:
  - (i) the provisions of the other obligations or securities of the Trustee, the Government or any other person resulting from the relevant exchange or substitution or conversion; or
  - (ii) if more than one series of other obligations or securities results from the relevant exchange or substitution or conversion, the provisions of the resulting series of securities having the largest aggregate face amount.

## 17.6 Information

Prior to or on the date that the Trustee or the Government, as the case may be, proposes any Extraordinary Resolution or Written Resolution pursuant to Condition 17.2 (*Modification of this Series of Certificates only*), Condition 17.3 (*Multiple Series Aggregation – Single limb voting*) or Condition 17.4 (*Multiple Series Aggregation – Two limb voting*), the Trustee or the Government, as the case may be, shall publish in accordance with Condition 18 (*Aggregation Agent; Aggregation Procedures*) and provide the Delegate with the following information:

- (a) a description of the Trustee's and the Government's economic and financial circumstances which are, in the Trustee's and the Government's opinion, relevant to the request for any potential modification or action, a description of the Trustee's and the Government's existing debts and a description of its broad policy reform programme and provisional macroeconomic outlook;
- (b) if the Trustee or the Government shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors

or creditor groups and/or an agreement with any such creditors regarding debt relief, a description of any such arrangement or agreement. Where permitted under the information disclosure policies of the multilateral or such other creditors, as applicable, copies of the arrangement or agreement shall be provided;

- (c) a description of the Trustee's or the Government's proposed treatment of external securities that fall outside the scope of any multiple series aggregation and its intentions with respect to any other securities and its other major creditor groups; and
- (d) if any proposed modification or action contemplates securities being aggregated in more than one group of securities, a description of the proposed treatment of each such group, as required for a notice convening a meeting of the Certificateholders in Condition 17.1(d)(vii) (*Convening Meetings of Certificateholders; Conduct of Meetings of Certificateholders; Written Resolutions*).

#### 17.7 **Claims Valuation**

For the purpose of calculating the face value of the Certificates and any affected series of securities which are to be aggregated with the Certificates in accordance with Condition 17.3 (*Multiple Series Aggregation – Single limb voting*) and Condition 17.4 (*Multiple Series Aggregation – Two limb voting*), the Trustee or the Government, as the case may be, may appoint a Calculation Agent. The Trustee shall, with the approval of the Aggregation Agent and any appointed Calculation Agent, promulgate the methodology in accordance with which the Calculation Agent will calculate the face value of the Certificates and such affected series of securities. In any such case where a Calculation Agent is appointed, the same person will be appointed as the Calculation Agent for the Certificates and each other affected series of securities for these purposes, and the same methodology will be promulgated for each affected series of securities.

#### 17.8 **Manifest error, etc.**

The Certificates, these Conditions and the provisions of the Declaration of Trust may be amended without the consent of the Certificateholders to correct a manifest error. In addition, the parties to the Declaration of Trust may agree to modify any provision thereof, but none of the Trustee, the Government or the Delegate shall agree, without the consent of the Certificateholders, to any such modification unless, in the opinion of the Delegate, it is of a formal, minor or technical nature or it is not materially prejudicial to the interests of the Certificateholders.

#### 17.9 **Certificates controlled by the Trustee or the Government**

For the purposes of (i) determining the right to attend and vote at any meeting of Certificateholders, or the right to sign or confirm in writing, or authorise the signature of, any Written Resolution, (ii) this Condition 17 (*Meetings of Certificateholders; Written Resolutions*) and (iii) Condition 13 (Dissolution Events), any Certificates which are for the time being held by or on behalf of the Trustee, the Government or by or on behalf of any person which is owned or controlled directly or indirectly by the Trustee, the Government or by any public sector instrumentality of the Trustee or the Government shall be disregarded and be deemed not to remain outstanding, where:

- (a) **public sector instrumentality** means the State Bank of Pakistan or any department, ministry or agency of the Government or any corporation, trust, financial institution or other entity owned or controlled by the Government or any of the foregoing; and
- (b) **control** means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or through contractual control or



otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

A Certificate will also be deemed to be not outstanding if the Certificate has previously been cancelled or delivered for cancellation or held for reissuance but not reissued or, where relevant, the Certificate has previously been called for redemption in accordance with its terms or previously become due and payable at maturity or otherwise and the Trustee has previously satisfied its obligations to make all payments due in respect of the Certificate in accordance with its terms.

In advance of any meeting of Certificateholders, or in connection with any Written Resolution, the Trustee or the Government, as the case may be, shall provide to the Delegate a copy of the certificate prepared pursuant to Condition 18.4 (*Aggregation Agent; Aggregation Procedures – Certificate*) which includes information on the total number of Certificates which are for the time being held by or on behalf of the Trustee or the Government, as the case may be, or by or on behalf of any person which is owned or controlled directly or indirectly by the Trustee or the Government, as the case may be, or by any public sector instrumentality of the Trustee or the Government, as the case may be, and, as such, such Certificates shall be disregarded and deemed not to remain outstanding for the purposes of ascertaining the right to attend and vote at any meeting of Certificateholders or the right to sign, or authorise the signature of, any Written Resolution in respect of any such meeting. The Delegate shall make any such certificate available for inspection during normal business hours at its Specified Office and, upon reasonable request, will allow copies of such certificate to be taken.

#### 17.10 **Publication**

The Trustee or the Government, as the case may be, shall publish all Extraordinary Resolutions and Written Resolutions which have been determined by the Aggregation Agent to have been duly passed in accordance with Condition 18.7 (*Aggregation Agent; Aggregation Procedures – Manner of Publication*).

#### 17.11 **Exchange and Conversion**

Any Extraordinary Resolutions or Written Resolutions which have been duly passed and which modify any provision of, or action in respect of, the Conditions may be implemented at the option of the Trustee or the Government, as the case may be, by way of a mandatory exchange or conversion of the Certificates and each other affected series of securities, as the case may be, into new *Shari'a*-compliant securities containing the modified terms and conditions if the proposed mandatory exchange or conversion of the Certificates is notified to Certificateholders at the time notification is given to the Certificateholders as to the proposed modification or action. Any such exchange or conversion shall be binding on all Certificateholders.

### **18 Aggregation Agent; Aggregation Procedures**

#### 18.1 **Appointment**

The Trustee or the Government, as the case may be, will appoint an Aggregation Agent to calculate whether a proposed modification or action has been approved by the required face amount outstanding of Certificates, and, in the case of a multiple series aggregation, by the required face amount of outstanding securities of each affected series of securities. In the case of a multiple series aggregation, the same person will be appointed as the Aggregation Agent for the proposed modification of any provision of, or any action in respect of, these Conditions, the Declaration of Trust or any other Transaction Document in respect of the Certificates and in respect of the terms and conditions or securities documentation in respect of each other affected series of securities. The Aggregation Agent shall be independent of the Trustee and the Government.

## 18.2 **Extraordinary Resolutions**

If an Extraordinary Resolution has been proposed at a duly convened meeting of Certificateholders to modify any provision of, or action in respect of, these Conditions and other affected series of securities, as the case may be, the Aggregation Agent will, as soon as practicable after the time the vote is cast, calculate whether holders of a sufficient portion of the aggregate face amount of the outstanding Certificates and, where relevant, each other affected series of securities, have voted in favour of the Extraordinary Resolution such that the Extraordinary Resolution is passed. If so, the Aggregation Agent will determine that the Extraordinary Resolution has been duly passed.

## 18.3 **Written Resolutions**

If a Written Resolution has been proposed under the terms of these Conditions to modify any provision of, or action in respect of, these Conditions and the terms and conditions of other affected series of securities, as the case may be, the Aggregation Agent will, as soon as reasonably practicable after the relevant Written Resolution has been signed or confirmed in writing, calculate whether holders of a sufficient portion of the aggregate face amount of the outstanding Certificates and, where relevant, each other affected series of securities, have signed or confirmed in writing in favour of the Written Resolution such that the Written Resolution is passed. If so, the Aggregation Agent will determine that the Written Resolution has been duly passed.

## 18.4 **Certificate**

For the purposes of Condition 18.2 (*Aggregation Agent; Aggregation Procedures – Extraordinary Resolutions*) and Condition 18.3 (*Aggregation Agent; Aggregation Procedures – Written Resolutions*), the Trustee and the Government will provide a certificate to the Aggregation Agent up to three days prior to, and in any case no later than, with respect to an Extraordinary Resolution, the date of the meeting referred to in Condition 17.2 (*Meetings of Certificateholders; Written Resolutions – Modification of this Series of Certificates only*), Condition 17.3 (*Meetings of Certificateholders; Written Resolutions – Multiple Series Aggregation – Single limb voting*) or Condition 17.4 (*Meetings of Certificateholders; Written Resolutions – Multiple Series Aggregation – Two limb voting*), as applicable, and, with respect to a Written Resolution, the date arranged for the signing of the Written Resolution.

The certificate shall:

- (a) list the total face amount of Certificates and, in the case of a multiple series aggregation, the total face amount of each other affected series of securities outstanding on the record date; and
- (b) clearly indicate the Certificates and, in the case of a multiple series aggregation, securities of each other affected series of securities which shall be disregarded and deemed not to remain outstanding as a consequence of Condition 17.9 (*Meetings of Certificateholders; Written Resolutions – Certificates controlled by the Trustee or the Government*) on the record date identifying the holders of the Certificates and, in the case of a multiple series aggregation, securities of each other affected series of securities.

The Aggregation Agent may rely upon the terms of any certificate, notice, communication or other document believed by it to be genuine.

## 18.5 **Notification**

The Aggregation Agent will cause each determination made by it for the purposes of this Condition 18 (*Aggregation Agent; Aggregation Procedures*) to be notified to the Delegate, the Trustee and the Government as soon as practicable after such

determination. Notice thereof shall also promptly be given by the Trustee or the Government to the Certificateholders.

#### **18.6 Binding nature of determinations; no liability**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 18 (*Aggregation Agent; Aggregation Procedures*) by the Aggregation Agent and any appointed Calculation Agent will (in the absence of manifest error) be binding on the Trustee, the Government, the Delegate and the Certificateholders and (subject as aforesaid) no liability to any such person will attach to the Aggregation Agent or the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

#### **18.7 Manner of publication**

The Trustee and the Government will publish all notices and other matters required to be published pursuant to the Declaration of Trust including any matters required to be published pursuant to Condition 13 (*Dissolution Events*), Condition 17 (*Meetings of Certificateholders; Written Resolutions*) and this Condition 14 (*Aggregation Agent; Aggregation Procedures*):

- (a) through the systems of Clearstream Banking S.A., Euroclear Bank S.A./N.V. and DTC and/or any other international or domestic clearing system(s) through which the Certificates are for the time being cleared;
- (b) in such other places and in such other manner as may be required by applicable law or regulation; and
- (c) in such other places and in such other manner as may be customary.

### **19 Indemnification and Liability of the Delegate and the Trustee**

19.1 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.

19.2 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.

19.3 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 depository 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.

### **20 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.

## 21 Governing Law and Jurisdiction

### 21.1 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.

### 21.2 Jurisdiction

- (a) The Issuer irrevocably submits for the benefit of the Delegate for and on behalf of the Certificateholders to the jurisdiction of the courts of England sitting in London, England and the courts of Pakistan (the **Specified Courts**) over any suit, action or proceeding against it or its properties, assets or revenues with respect to the 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 **Related Proceeding**). The Issuer waives any objection to Related Proceedings in such courts whether on the grounds of venue, residence or domicile or on the ground that the Related Proceedings have been brought in an inconvenient forum. The Issuer has agreed that a final non-appealable judgment obtained in any such Related Proceeding (a **Related Judgment**) shall be conclusive and binding upon it and may be enforced in any Specified Court or in any other courts to the jurisdiction of which the Issuer is or may be subject (the **Other Courts**), by a suit upon such judgment or appropriate enforcement proceedings in Pakistan.
- (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 Related 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 Related 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 Related 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 Related Proceeding or Related Judgment) provided that such agreement and waiver, insofar as it relates to any jurisdictions other than a jurisdiction in which any Specified Court is located is given solely for the purposes of enabling 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).*

### 21.3 **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.
- (c) For the avoidance of doubt, nothing in this Condition 21.3 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 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 depository 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 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 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, holding their interests for their own account or for the account of one or more QIBs. 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 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, (ii) such transfer is made in reliance on Rule 144A, and (iii) the transferor provides the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transferor reasonably believes that the transferee is a QIB purchasing the beneficial interest for its own account or any account of a QIB, 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 in an offshore transaction in reliance on Rule 903 or Rule 904 of Regulation S, and (ii) the transferor provides the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transfer is being made in 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 Registrar at such office specified by the 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 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 Registrar 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 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 Registrar or 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 Registrar for completion, authentication and dispatch to the relevant Certificateholders. A person having an interest in a Global Certificate must provide the Registrar with (i) a written order containing instructions and such other information as the Issuer and the 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 purchasing the beneficial interest for its own account or any account of a QIB, 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, 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 Authorized Denomination by surrendering it at the specified office of the Registrar or 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 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. 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. 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 Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transferor reasonably believes that the transfer is (i) to a person that is a QIB purchasing the beneficial interest for its own account or any account of a QIB 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 Registrar 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 Third Pakistan International Sukuk Company Limited (the **Issuer**) a public limited liability company incorporated in Pakistan on 15 September 2016 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. 0102335. 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 or prior business history. 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 Haque Nawaz, Additional Finance Secretary, Finance Division, Islamabad      Director/Chief Executive Officer

Mr. Amjad Mahmood, Joint Secretary External Finance, Finance Division, Islamabad      Director

Mr Iftikhar Amjad, Deputy Secretary, 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 15 September 2016 to 30 June 2017. 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 5 October 2016 is set out below.

<b>Assets</b>	
Cash	Rupees 100,000
<b>Shareholders' Equity</b>	
Share Capital	Rupees 100,000

## 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 13 October 2016 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 13 October 2016 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 13 October 2016 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 13 October 2016 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.\$25,000,000 (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 13 October 2016 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 13 October 2016 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 13 October 2016 between the Government, the Issuer, the Trustee, the Delegate, the Principal Paying Agent, the Registrar and the Transfer Agent 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.\$999,500,000 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.

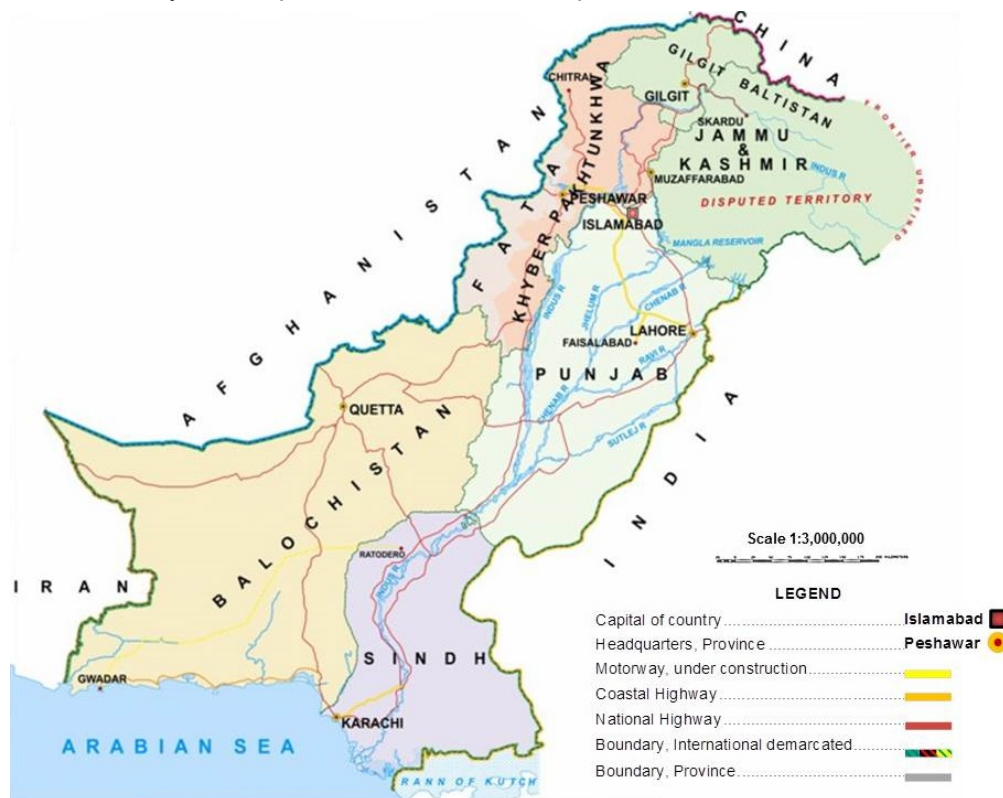
# THE ISLAMIC REPUBLIC OF PAKISTAN

## 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**). Karachi is the main financial, commercial and industrial centre of 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 provincial capitals are Karachi (**Sindh**), Lahore (**Punjab**), Peshawar (**KPK**) and Quetta (**Balochistan**).

The northern region of Pakistan is famous for its high mountain ranges and glaciers, 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 193.6 million in 2015-16. 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 61.04 million in 2014-15, of which 57.42 million were employed and 3.62 million (or 5.9 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 60.1 per cent in 2016.

In 2015-16 approximately 35.4 per cent of the population of Pakistan was in the age range of 0 to 14 years, 60.4 per cent was in the age range of 15 to 64 years and 4.2 per cent were over 65 years. The population of Pakistan has increased by 15.1 per cent from 168.2 million to 193.6 million between 2009-10 and 2015-16. 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 kilometres) 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 Mian Muhammad Nawaz Sharif, emerged as the single largest party and formed the current Government of Pakistan. Mian Muhammad 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.

**The 21<sup>st</sup> Amendment to the Constitution.** In January 2015, the 21<sup>st</sup> Amendment to the Constitution was enacted. The effect of the 21<sup>st</sup> Amendment is to provide the military courts with power under the Constitution for the trial of any offences relating to terrorism. The 21<sup>st</sup> Amendment to the Constitution was enacted for a period of two years and will expire on 7 January 2017.

**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, Mian Muhammad 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 federal cabinet in addition to the current Prime Minister, Mian Muhammad Nawaz Sharif. All are members of PML-N:

#### FEDERAL MINISTERS

Name	Portfolio
Engr. Khurram Dastgir Khan	Commerce
Mr. Rana Tanveer Hussain	Defence Production Additionally: Science and Technology
Mr. Muhammad Ishaq Dar	Finance, Revenue, Economic Affairs, Statistics and Privatisation
Mr. Akram Khan Durrani	Housing and Works
Mr. Ghulam Murtaza Khan Jatoi	Industries and Production
Mr. Pervaiz Rashid	Information, Broadcasting and National Heritage
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
Mir Hasil Khan Bizenjo	Ports and Shipping
Mr. Khawaja Saad Rafique	Railways
Mr. Sardar Muhammad Yousaf	Religious Affairs and Inter-faith Harmony
Lt. General (Retd.) Abdul Qadir Baloch	States and Frontier Regions
Mr. Khawaja Muhammad Asif	Water and Power Additionally: Defence

#### **MINISTERS OF STATE**

<b>Name</b>	<b>Portfolio</b>
Dr. Tariq Fazal Chudhary	Capital Administration and Development Division
Mr. Muhammad Baligh Ur Rehman	Federal Education and Professional Training Additionally: Interior and Narcotics Control
Mrs. Anusha Rahman Ahmad Khan	Information Technology and Telecommunication
Mrs. Saira Afzal Tarar	National Health Services, Regulations and Coordination
Mr. Jam Kamal Khan	Petroleum and Natural Resources
Pir Muhammad Amin Ul Hasnat Shah	Religious Affairs and Inter-faith Harmony
Mr. Abid Sher Ali	Water and Power
Mr. Usman Ibrahim	Without Portfolio

#### **ADVISERS TO THE PRIME MINISTER**

<b>Name</b>	<b>Portfolio</b>
Mr. Sartaj Aziz	Adviser to the Prime Minister for Foreign Affairs with the status of Federal Minister
Engr. Ameer Muqam	Adviser to the Prime Minister with the status of Federal Minister
Mr. Jam Mashooq Ali	Adviser to the Prime Minister for Political Affairs with the status of Federal Minister
Mr. Irfan Siddiqui	Adviser to the Prime Minister for National History and Literary Heritage with the status of Federal Minister

#### **SPECIAL ASSISTANTS TO THE PRIME MINISTER**

<b>Name</b>	<b>Portfolio</b>
Mr. Tariq Fatemi	Special Assistant to the Prime Minister on Foreign Affairs with the status of Minister of State
Dr. Musadik Malik	Special Assistant / Official Spokesperson to the Prime Minister with the status of Minister of State
Mr. Khawaja Zaheer Ahmed	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 with the status of Minister of State

Capt. Shujaat Azim	Special Assistant to the Prime Minister on Aviation (on honorary basis)
Barrister Zafarullah Khan	Special Assistant to the Prime Minister for Law with the status of Minister of State
Mr. Haroon Khan	Special Assistant to the Prime Minister for Revenue with the status of Minister of State
Dr. Syed Asif Saeed Kirmani	Special Assistant to the Prime Minister for Political Affairs with the status of Minister of State

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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 was re-established in 2015. 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 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 promoting Pakistan as a dynamic, progressive, moderate, and democratic Islamic country; safeguarding the country's security and geo-strategic interests, including Kashmir; commercial and economic cooperation; safeguarding the interests of Pakistani diaspora; ensuring optimal utilisation of national resources for



regional and international cooperation; 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. (and its funds and programmes, including UNDP, UNFPA, UNICEF, and UNEP), the IMF, the World Bank, World Intellectual Property Organisation (**WIPO**), World Health Organisation (**WHO**), International Labour Organisation (**ILO**), International Telecommunication Union (**ITU**), Universal Postal Union (**UPU**), International Maritime Organisation (**IMO**), International Civil Aviation Organisation (**ICAO**) and UN related agencies such as the World Trade Organisation (**WTO**), and the International Atomic Energy Agency (**IAEA**). Pakistan also is a member of the Organisation of the Islamic Cooperation (**OIC**), the Non-Aligned Movement, the Commonwealth, the Asian Infrastructure Investment Bank (**AIIB**), 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 (**SAARC**), which includes Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal and Sri Lanka, with China and Japan participating as observers and will host the 19th summit of SAARC in Islamabad in November 2016. 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 due to host the Central Asia Regional Economic Cooperation Ministerial Conference in Islamabad in October 2016.

Pakistan is also a member of the Developing-8 (**D8**), comprising Bangladesh, Egypt, Iran, Indonesia, Malaysia, Nigeria, Pakistan and Turkey. The D8 countries signed a preferential trade agreement on 14 May 2006.

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

Pakistan 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.

Given Pakistan's growing prominent role in the region, the Shanghai Cooperation Organisation (**SCO**), comprised of China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan, extended observer status to Pakistan in July 2005. Pakistan's application for full membership with the Organization has been accepted by the founding members. After completion of all formalities, Pakistan is expected to be granted full membership in the next SCO Heads of State meeting scheduled for the second half of 2017.

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 U.N. peacekeeping, becoming one of the largest troop-contributing countries with 7,175 Pakistani troops deployed around the world in seven U.N. peacekeeping missions.

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

- **Relations with the United States (U.S.).** Pakistan's relations with the U.S. constitute an important element of its foreign policy. This relationship, spanning almost seven decades, is robust and wide ranging. Despite occasional challenges in their bilateral ties due to concerns regarding geopolitical and security issues, Pakistan and the U.S. have generally managed to maintain a pragmatic and working relationship with each other.

The Pakistan-U.S. Strategic Dialogue mechanism is central in the relationship between the two countries. Established in 2006, six sessions of the Strategic Dialogue have been held so far. The 6<sup>th</sup> Ministerial Review of the Pakistan-U.S. Strategic Dialogue, co-chaired by the Adviser to the Prime Minister on Foreign Affairs Sartaj Aziz and the Secretary of State John Kerry, was held in the State Department in Washington D.C, on 29 February 2016.

The U.S. is Pakistan's second largest export market, after the EU, accounting for nearly 16 per cent. of total exports, primarily textiles and apparel. In 2015-16, the total trade between Pakistan and the U.S. amounted to U.S.\$5.385 billion. Pakistan enjoyed a trade surplus with the U.S. during this period. Pakistan's exports amounted to U.S.\$3.574 billion while the imports from the U.S. stood at U.S.\$1.811 billion.

The U.S. is a major foreign investor in Pakistan. However, foreign direct investment from the U.S. has been decreasing in recent years (See "*Balance of payments and foreign trade –Foreign Direct Investment*"). U.S. foreign direct investment is primarily focused on the food and beverages, chemicals, financial business, oil and gas exploration, cement, construction, communication and electronic sectors of Pakistan.

Energy is another key area of cooperation between Pakistan and the U.S. A document titled "U.S. and Pakistan Energy Cooperation Strategy: Priorities Through 2020 for the U.S.-Pakistan Clean Energy Partnership" was agreed at the Pakistan-U.S. Energy Working Group meeting held in Washington on 30 March 2016. The Strategy reaffirms commitment of both countries to advance the goals of the US-Pakistan Clean Energy Partnership.

Cooperation between Pakistan and the U.S. in the field of education, science and technology is an important element in shifting the current security-centric focus of this relationship to a multidimensional partnership between the two countries. Following the 5<sup>th</sup> Ministerial review of the Pakistan-US Strategic Dialogue in 2015, a new Working Group on Education, Science and Technology was established on Pakistan's initiative.

Subsequently, the Pakistan-U.S. Knowledge Corridor was formally launched during the Prime Minister's visit to the U.S. in October 2015. The Knowledge Corridor aims at creating an opportunity for 10,000 scholars to complete their PhD programmes through different universities in the U.S. over the next 10 years. In addition, the proposal envisages the development of 15 new science and technology universities in Pakistan modelled on selected universities in the United States. Under a memorandum of understanding signed on February 2016 between the Higher Education Commission of Pakistan and the U.S. Education Foundation in Pakistan, Pakistan will fund up to 125 additional Pakistani PhD scholars in the United States under the Fulbright Program.

The U.S. and Pakistan continue to work together closely in the Fight against Extremism. On 11 February 2016, the U.S. government proposed U.S.\$860 million in aid for Pakistan during the 2016-17 fiscal year, including U.S.\$265 million for military hardware in addition to counterinsurgency funds.

- **Relations with China.** Pakistan continues to enjoy close and stable relations with China, with increasingly strong economic relations in recent years. 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.\$18 billion in 2015-16, 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.

The China-Pakistan Free Trade Agreement (**CPFTA**) was signed on 24 November 2006 and 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. The two countries have been negotiating the second phase of the CPFTA since 2011 and six meetings have been held for this purpose.

In July 2013, during Prime Minister Mian Muhammad Nawaz Sharif's first official visit to China, the countries signed a memorandum of understanding on the CPEC. The aim of CPEC is to enhance trade, investment, regional integration and connectivity between Pakistan and China by investing in infrastructure and has already resulted in significant progress (see "*Overview of Pakistan's Economy - China-Pakistan Economic Corridor (CPEC)*").

China has steadily increased its investment in Pakistan. In 2014, China's direct investment in Pakistan was more than U.S.\$2.1 billion bringing the cumulative total to approximately U.S.\$15 billion.

Chinese President Xi Jinping and President Mamnoon Hussain met in September 2015 and announced further political, economic and security cooperation between their countries in particular in relation to CPEC and in tackling the Uighur militant group, the East Turkestan Islamic Movement.

- **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*". Consistent with the Prime Minister's vision of a peaceful and friendly neighbourhood, Pakistan is pursuing a policy of good relations with all countries in the region, including India. Pakistan wants diplomatic resolution of all outstanding issues with India, including the Jammu and Kashmir dispute. However, the situation remains challenging, despite periodic improvements, and Kashmir remains an on-going source of tension and occasional violent conflict between the two countries.

The Foreign Secretaries of India and Pakistan agreed to resume bilateral engagement during the Indian External Affairs Minister's visit to Islamabad in December 2015 for the "Heart of Asia Conference" but the planned bilateral dialogue did not take place. The talks were to have covered peace and security, confidence building measures, Jammu and Kashmir, Siachen, Sir Creek, the Wullar Barrage, commercial and economic cooperation, counter-terrorism, narcotics control and humanitarian issues, people-to-people exchanges and religious tourism.

The two Foreign Secretaries' meeting scheduled for mid-January 2016 was postponed due to a terrorist attack on the Indian Pathankot Air Force Station which occurred at the beginning of that month. Pakistan condemned the Pathankot attack, extended its condolences and is cooperating with the Indian side to investigate the attack.

Pakistan has also recently conveyed its concerns to the Indian Government and the international community over what it views as the involvement of Indian intelligence agencies in subversive and terrorist activities within Pakistan. Pakistan's law enforcement agencies apprehended Mr. Kulbhushan Yadav on 3 March 2016 on charges of involvement in various subversive activities to destabilise law and order in Balochistan and Karachi. Pakistan has asserted that Mr. Kulbhushan Yadav is a serving naval officer of India who was operating illegally in Balochistan.

In addition, Pakistan has strongly and publically condemned the use of force by Indian armed forces in Indian occupied Jammu and Kashmir which, since July 2016, has

resulted in over 90 civilian deaths and 8,000 injuries, including 500 critical injuries. More than 150 people, including children, have become permanently blind due to the indiscriminate use of pellet guns by the Indian forces.

- **Relations with the United Kingdom (the U.K.).** Since gaining independence from British colonial rule in 1947, Pakistan has developed a close relationship with the U.K. 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 1.4 million in the United Kingdom. The volume of trade between the two countries was U.S.\$2.3 billion during 2014-15.

The U.K. Department for International Development (**DFID**) initiated an Operational Plan 2011-2015 pursuant to which assistance of almost GBP1.4 billion was disbursed over four years, making Pakistan the largest recipient country of the U.K. development assistance. An agreement has been reached in principle between the two countries on a new development programme for Pakistan.

Former 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 Mian Muhammad Nawaz 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.

Prime Minister Mian Muhammad Nawaz Sharif visited London 22-25 September 2015 and met the then U.K. Prime Minister David Cameron. The two leaders again discussed ways to further strengthen cooperation in various areas of mutual interest.

The September 2015 meetings followed an April 2015 meeting of Prime Minister Mian Muhammad Nawaz Sharif and Prime Minister Cameron in London to discuss issues of common interest.

Following the appointment of Theresa May as the new British Prime Minister, Prime Minister Mian Muhammad Nawaz Sharif spoke with her to congratulate her and assure her of Pakistan's unstinting support in the achievement of common goals. Prime Minister Mian Muhammad Nawaz Sharif also met the British Prime Minister in New York at the UN General Assembly session in New York in September 2016.

The Third Ministerial Review of the Pakistan-U.K. Enhanced Strategic Dialogue was carried out by the Adviser to the Prime Minister on Foreign Affairs, Mr. Sartaj Aziz, and British Foreign Secretary Philip Hammond in London on 18-20 April 2016, during which the two sides reviewed progress in the areas of trade, development, culture and security. The two sides agreed on three new roadmaps on Trade and Investment, Culture and Education, and Security as well as to establish Pakistan-U.K. Business Council and Cultural Forum and to set up British Business Centres in Lahore and Islamabad to facilitate business links between the two sides.

With over 100 British companies operating in Pakistan, the U.K. is the largest source of investment in Pakistan within the EU and fourth largest in the world. Investments from the U.K. were U.S.\$2.92 billion in aggregate over the last ten years with key sectors for investment being financial services, oil and gas exploration, petroleum refining, electricity generation, pharmaceutical, publishing, industrial chemicals and cement. Net foreign direct investment from the U.K. amounted to U.S.\$264 million for the period 2014-15.

- **Relations with Afghanistan.** Relations with Afghanistan have improved since the new Government took office in Afghanistan in September 2014. Prime Minister Mian Muhammad Nawaz Sharif visited Kabul on 12 May 2015 for meetings with the Afghan President. The Pakistani Adviser to the Prime Minister on National Security and Foreign Affairs visited Kabul on 4 September 2015 to participate in Sixth Regional

Economic Cooperation Conference on Afghanistan. President Ashraf Ghani visited Islamabad on 9 December 2015 to jointly inaugurate the Fifth Ministerial Conference of Heart of Asia. During side meetings during the Heart of Asia Conference, the parties held discussions in relation to the establishment of a Quadrilateral Coordination Group (QCG) comprising Afghanistan, Pakistan, China and the US for the resumption of peace talks. The QCG has held five meetings so far in the first half of 2016.

During his visit to Kabul in November 2013, the Prime Minister announced increased Pakistan's bilateral assistance from U.S.\$385 million to U.S.\$500 million for reconstruction and rehabilitation in Afghanistan with a focus on health, education, infrastructure, training and capacity-building. Pakistan is also providing 3,000 fully-funded scholarships to Afghan students. Pakistan has pledged U.S.\$2 million for the Afghan students to pursue business management degrees at the Lahore University of Management Science. 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 TAPI, CASA 1000.

At present, there are 1.5 million Afghan refugees and around one million undocumented Afghans in Pakistan. The permission to stay in Pakistan expired for registered refugees on 30 June 2016 but this has now been extended to 31 December 2016. Pakistan has requested that the Afghan Government provide passports or travel documents to undocumented Afghans by 15 November 2016 for their return to Afghanistan. Prime Minister Mian Muhammad Nawaz Sharif has stated that Afghan refugees will not be repatriated forcibly and they should return to Afghanistan of their own volition. The Government of Pakistan has set out a plan of action for expediting the repatriation of refugees and has requested that the Afghan Government to create incentives for refugees to return including by setting up temporary settlements for returnees. Pakistan has offered to deliver wheat through World Food Programme to such settlements in Afghanistan for a three year period.

The porous border between the two countries remains a major challenge in controlling immigration and a frontier in the Fight against Extremism (discussed below), particularly given Pakistan's significant efforts in this area. From 1 June 2016 the Government has been documenting the entry and exit of Afghan nationals at the border crossing at Torkham to manage the border more effectively and to minimize the risk of unsavoury elements crossing the border. Presently, 202,000 Pakistani troops are deployed along the border.

In a meeting between the Pakistani Adviser to the Prime Minister on National Security and Foreign Affairs and the Afghan Foreign Minister at the SCO Summit in Tashkent on 23 June 2016, the two sides established a mechanism for consultations to be co-chaired by the Adviser and Foreign Minister with the participation of national security advisers. It is hoped that this mechanism for consultation will provide for more effective coordination on issues relating to bilateral relations and cooperation, including security, movement of people and vehicles between the two countries. It was agreed that the mechanism will have a joint technical working group headed by the two countries' respective Director Generals of Military Operations. The first meeting of the group was held on 26 July 2016 to discuss border management related issues.

- **Relations with Iran.** Pakistan and Iran enjoy close and cordial relations based on historic ties, shared faith and culture, as well as trade. The two countries are also founding members, together with Turkey, of the Economic Cooperation Organization, founded to improve development and promote trade and investment opportunities between its Central Asian members. The Government is committed to strengthening economic ties with Iran, in particular by growing the trade volume between the two countries. During a visit of the Prime Minister to Iran in 2014, he agreed with President Rouhani to target a trade volume of U.S.\$5 billion over the five years to 2019. After the imposition of financial sanctions on Iran, bilateral trade declined considerably, from over U.S.\$1.2 billion in 2009-10 to U.S.\$269 million in 2014-15. Major exports to Iran include rice, meat, paper and paper board, chemicals, textiles, fruits and vegetables, while major import items from Iran include iron ore and hides and skins.

After the IAEA confirmed that Iran had met the relevant requirements under the Joint Comprehensive Plan of Action agreed with Iran in July 2015, all nuclear sanctions were lifted by the UN, the EU and the United States on 16 January 2016. This removed a major impediment to trade between Iran and Pakistan, including the current lack of credible banking channels. A letter of intent to establish banking channels was signed between the State Bank of Pakistan and the Central Bank of Iran during President Rouhani's visit to Pakistan in March 2016. However, the two countries' respective banks have yet to establish formal channels. One reason for this lack of progress is the ambiguity regarding the extent to which sanctions have in fact been lifted.

The Iran-Pakistan Gas Pipeline project which has been stalled since sanctions were implemented is now expected to be recommenced once there is clarity regarding the lifting of sanctions. See below – "*Iran-Pakistan Gas Pipeline Project*".

Currently, only one electricity project is successfully running between the two countries under which Pakistan is importing 74 MW per day from Iran (70 MW for the town of Mand and 2 MW each for the towns of Taftan and Mashkhail in the Makran Division in Balochistan, Pakistan). In February 2015, it was agreed that starting from January 2016, an additional 30 MW of electricity would be provided on the Jakigur-Mand line after improvements to the current infrastructure.

- **Relations with Turkey.** Pakistan and Turkey enjoy close relations. The Government accords special attention to strengthening economic ties with Turkey. In March 2016, the framework agreement for a comprehensive bilateral free trade agreement (FTA) was signed. It is expected that the FTA will be concluded by the end of this year. In 2015, bilateral trade was U.S.\$599.699 million with Pakistani exports of U.S.\$310.544 million and imports of U.S.\$289.155 million. Pakistan's main exports to Turkey are cotton, cotton-yarn, textiles, leather, beverages, plastic products, carpets, knitted and non-knitted goods and miscellaneous products. Pakistan's main imports include boilers electrical machinery, dairy products and edible preparations. The early conclusion and implementation of the FTA would significantly contribute towards enhancing bilateral trade.

Pakistan has intensified efforts to attract Turkish investment in priority areas such as energy, food, infrastructure and communications. Various Turkish companies participated in a Pakistan Investment Conference organized by the Board of Investment in November 2015 in Islamabad. Leading private sector Turkish companies which have invested in Pakistan include Koç Group, Gama Holding, Nurol Group, IC holding, LIMAK Holding, STFA, TAV Airports Holding, Albayrak Group, Zorlu Energi, ATA Holding and Ciner Group have appreciated the business friendly policies adopted by the Government. Koç Group has recently acquired Pakistan's leading home appliance brand, Dawlance, for U.S.\$258 million.

Turkish investment and support has also been obtained for the Islamabad- Rawalpindi Metro bus project and various solid waste management and wind turbine projects.

- **Relations with Saudi Arabia.** Pakistan and Saudi Arabia enjoy special relations, grounded in common faith and history. There are regular exchanges at senior government levels.

On 7 January 2016, Saudi Foreign Minister Dr Adel Al Jubeir visited Pakistan after the announcement of 34-nation coalition against terrorism by Saudi Arabia. He met with the Prime Minister, Chief of Army Staff and Advisor to Prime Minister on Foreign Affairs, Mr. Sartaj Aziz.

On 10 January 2016, HRH Prince Mohammad bin Salman, Deputy Crown Prince and Minister of Defence visited Pakistan and met with the Prime Minister and Chief of Army Staff.

Most recently he visited Pakistan on 28 August 2016 as the first destination in his Asian tour. During discussions, both countries agreed to further enhance the bilateral ties between them and to strengthen their cooperation in diverse fields.

Saudi Arabia has provided crucial financial support to Pakistan on numerous occasions, particularly during times of economic crises in Pakistan. Pakistan, on its turn, has provided Saudi Arabia with defence and security support.

Saudi Arabia is home to approximately 2 million Pakistani expatriates, the largest number of Pakistani expatriates in the world. Saudi-based Pakistanis are a substantial source of the foreign remittances. 20 per cent. of Saudi-based Pakistanis are highly skilled or skilled while the remaining 80 per cent. comprise semi-skilled and unskilled manpower. Together they comprise 16 per cent. of the total foreign labour force working in Saudi Arabia.

**Relations with Russia.** Pakistan fully acknowledges Russia's role as a major political and economic player in the region and the world. There is a consensus in Pakistan for further improving relations with Russia. Pakistan is working on developing a multidimensional relationship with Russia, including in the fields of trade, energy, infrastructure development, defence and culture. Similarly, Russia considers Pakistan as an important partner in the South-West Central Asian region. It is keen to expand its relations with Pakistan since it considers that close cooperation between Pakistan and Russia would not only be of benefit to the two countries but would also help in building stability and prosperity in the region. Russia has fully supported Pakistan's entry into the Shanghai Cooperation Organisation as a full member.

Pakistan's relations with Russia are on an upward trajectory. Both countries have been able to develop mutual understanding on important political and security issues, paving the way for increased cooperation in diverse areas. One of the most important areas of cooperation is the energy sector. Both countries agree that there is considerable scope for cooperation in this area since Pakistan has a very large scale programme to address its energy requirements and Russian companies are keen to participate in this programme. Russia is investing in Pakistan and the two countries concluded an agreement earlier this year in relation to the financing and construction of a north-south LNG-import pipeline from Karachi to Lahore (see "*Energy in Pakistan -LNG*" below).

Pakistan and Russia signed a defence cooperation agreement in 2014 and have agreed to carry out joint military exercises. 200 military personnel from both sides are participating in the exercises at Cherat in September 2016 and October 2016. These exercises are an expression of the desire on both sides to broaden their defence ties.

## **Nuclear Programme**

On 11 and 13 May 1998, India carried out nuclear weapons tests. In response, Pakistan carried out nuclear tests on 28 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 has maintained a nuclear deterrent and its 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.

In accordance with its energy security plan, the Government plans to generate 8,800 MW from nuclear power by 2030.

### **Fight against Extremism**

Pakistan's economy is negatively affected by the Fight against Extremism, which has had a significant negative effect on Pakistan's domestic security situation, particularly over the past 14 years. Since 2006, the Fight against Extremism in Pakistan has cost Pakistan more than 61,031 lives, including that of 6,546 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 Extremism. 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 Extremism 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-extremism activities



have been successful in reducing incidents of terrorism, 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. The operation has been a success and is currently in its final phase and the rate of terrorist activity has declined.

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. In December 2014, seven gunmen affiliated with the *Tehreek-i-Taliban* conducted a terrorist attack on the Army Public School in the northwestern Pakistani city of Peshawar killing 145 people, including 132 schoolchildren. In January 2015, Sunni militants linked to the Pakistani Taliban killed at least 61 people and seriously injured 50 in a bombing at a Shiite mosque in the Shikarpur District of Sindh. In May 2015, attacks by gunmen on buses in Karachi and Mastung resulted in the deaths of 69 people. In March 2016, at least 74 people were killed and 338 others were injured in a suicide bombing in a public park in Lahore. In August 2016, 70 people were killed and over 120 injured in a suicide bombing at the Government Hospital of Quetta. The withdrawal of the U.S. troops from Afghanistan may result in increased capacity for terrorist groups operating in Pakistan, resulting in greater instability, and Pakistan continues to advocate a phased withdrawal.

In the wake of the terrorist attack on the Army Public School in Peshawar the Government formulated a National Action Plan (**NAP**) with the backing of all political parties and other stakeholders to combat extremism in all its forms. The NAP aims to curtail terrorist financing; coordinate intelligence sharing between the federal and provincial governments of Pakistan, as well as between Pakistan's military police and other security agencies; and create dedicated counter-terrorism forces. It involves Government regulation and reform of the madrasas to bring them within mainstream education as well as an anti-money laundering campaign to restrict terrorist funding by the SBP and Federal Investigation Authority. In addition, the Government has stepped up electronic and social media monitoring to ensure that information which may be of use to terrorists is not made publicly available. The implementation of the NAP has resulted in a marked improvement in the security situation in Pakistan.

There have been historic issues between India and Pakistan related to extremist activity. In September 2013, Prime Minister Mian Muhammad Nawaz 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 alleged leader of the attacks, Zaki-ur-Rehman Lakhvi, won an appeal against his detention in December 2014 and was released from jail on bail on 10 April 2015. The other six suspects remain in custody. The case against them is currently suspended as India has yet to decide whether to send 24 witnesses to Pakistan to record their statements. In addition, in September 2016, Zaki-ur Rehman Lakhvi and the six other suspects challenged the legality of a Pakistani judicial commission that travelled to India in 2013 to probe the 2008 attack. This challenge could cause further delay to proceedings.

It is estimated that the total cost to Pakistan of the Fight against Extremism has been approximately U.S.\$118.32 billion for the period from 2001 to 2016, with costs having decreased sharply since 2010-11 as a result of the improving security situation. Estimated annual losses for the past five years are as follows:

	2011-12	2012-13	2013-14	2014-15	2015-16*
	<i>(Rupees billion)</i>				
Estimated losses.....	1,052.77	964.24	791.52	936.30	578.20

\* Estimate based on July - March data.

**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;
- the First and Second Amendments to the Anti-Terrorism Act 2014 whereby the Government may publish lists of organisations or individuals who are suspected to be concerned in terrorism, owned or controlled, directly or indirectly by a terrorist organisation or acting on behalf of a terrorist group. Where an organisation or individual is concerned with terrorist activities, the amendments set out the various measures that may be taken against them by the Government; and
- as part of the implementation of NAP, the 21st amendment to the Constitution and amendment to the Army Act of 1952, both passed by Parliament in January 2015, allow military tribunals to try civilians accused of belonging to “a terrorist group or organisation using the name of religion or a sect” carrying out acts of violence and terrorism.

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 2015-16.

## 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-second 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, iron, steel, automobiles, fertilizer, cement, dairy and sports goods.

Under its current Government, elected in May 2013, Pakistan is undergoing a significant process of fiscal consolidation, improvement of macroeconomic fundamentals and economic liberalisation which includes tax reforms, energy sector reforms, and the privatisation of SOEs. Pakistan aims to attract increased levels of attracting foreign investment and decrease the budget deficit. Foreign exchange reserves have been bolstered by improved financial inflows and a moderate current account deficit, underpinned by steady worker remittances and relatively low imports. See "*Structural Economic Reforms*" below.

The Government's three-year finance programme with the IMF - concluded in September 2016 - provided an institutional framework for the Government's economic policy objectives. Pursuant to its financing arrangements with the IMF, Pakistan was subject to quarterly economic review by the IMF officials for consideration by the executive board of the IMF. On 4 August 2016, IMF staff completed the twelfth and final review of Pakistan's economic performance. This entitles Pakistan to the release of the residual SDR 73 million (U.S.\$102 million) as agreed by an IMF executive board meeting held at the end of September 2016. With the release of the last tranche, total disbursements under the arrangement will be SDR 4.39 billion (approximately U.S.\$6.64 billion).

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

Pakistan's economy has three principal sectors: services (59.2 per cent of GDP 2015-16), industrial (21.0 per cent of GDP 2015-16) and agriculture (19.8 per cent of GDP 2015-16).

Pakistan's principal export destinations are the U.S, China, the United Arab Emirates, Afghanistan, Germany, France and the United Kingdom. In 2015-16, Pakistan's exports were U.S.\$22 billion, principally in the form of textiles, rice, leather, chemicals, carpets, steel, foodstuffs, fertilizer, sugar, animals, electrical equipment, petroleum and sports goods. Pakistan's principal imports are from China, Saudi Arabia, the United Arab Emirates and Kuwait. In 2015-16, Pakistan's imports were U.S.\$40.5 billion, principally petroleum, petroleum products, machinery, plastics, raw cotton 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.

A measure of macroeconomic improvement has been achieved in recent years. GDP growth was 4.71 per cent in 2015-16, 4.04 per cent in 2014-15, 4.05 per cent in 2013-14 and 3.68 per cent in 2012-13. The increased growth of GDP in 2015-16 reflects a general improvement in the economic activities of the country. In 2015-16, the services sector grew at 5.71 per cent (4.31 per cent in 2014-15), the agriculture sector contracted by 0.19 per cent (2.53 per cent growth in 2014-15) and the industrial sector grew at 6.80 per cent (4.81 per cent. in 2014-15).

This growth has been achieved in an environment of lower inflation and with a significantly lower fiscal deficit, with inflation decreasing from 11 per cent in 2011-12 to 2.9 per cent in 2015-16 and the fiscal deficit shrinking from 8.2 per cent in 2012-13 to 4.6% in 2015-16.

## Major Economic Indicators

The following table sets out major economic indicators from 2010-11 to 2015-16:

	2011-12	2012-13	2013-14	2014-15 <sup>(1)</sup>	2015-16 <sup>(2)</sup>
GDP at current market price (Rupees million).....	20,046,500	22,385,657	25,168,805	27,493,105	29,597,905
GNI at current market price (Rupees million).....	21,082,207	23,547,264	26,597,032	29,167,916	31,466,584
Population (million).....	178.9	182.5	186.2	189.9	193.6
Per capita income at factor cost (Rupees).....	114,008	124,171	136,727	146,493	153,822
Per capita income (U.S.\$).....	1,321	1,334	1,389	1,517	1,561
Exports (U.S.\$ million) (fob).....	24,718	24,802	25,078	24,089	21,977 <sup>(4)</sup>
Imports (U.S.\$ million)(fob).....	40,370	40,157	41,668	41,280	40,347 <sup>(4)</sup>
Balance of trade (U.S.\$ million).....	(15,652)	(15,355)	(16,590)	(17,191)	(18,370) <sup>(4)</sup>
Workers' remittances (U.S.\$ million).....	13,186	13,922	15,837	18,721	19,917 <sup>(4)</sup>
Current account balance (U.S.\$ million).....	(4,658)	(2,496)	(3,130)	(2,709)	(3,262) <sup>(4)</sup>
Current account balance (as % of GDP).....	(2.1)	(1.1)	(1.3)	(1.0)	(1.1) <sup>(4)</sup>
Overall fiscal deficit (as % of GDP).....	6.8 <sup>(3)</sup>	8.2	5.5	5.3	4.6
GDP growth at factor cost (%).....	3.84	3.68	4.05	4.04	4.71
Average Inflation (%).....	11.0	7.4	8.6	4.5	2.86 <sup>(4)</sup>
Total investment at market price (as % of GDP).....	15.1	15.0	14.6	15.5	15.2
Real GDP at factor cost (Rupees million).....	9,470,255	9,819,055	10,217,056	10,629,661	11,130,035
Private consumption expenditure at current prices (Rupees million).....	16,527,831	18,091,829	20,391,214	21,995,133	23,698,864
National savings (as % of GDP).....	13.0	13.9	13.4	14.5	14.6 <sup>(5)</sup>

(1) Revised

(2) Provisional pending National Assembly approval in May 2017 of Pakistan's economic data for 2015-16, except where otherwise indicated.

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

(4) Final numbers published by the State Bank of Pakistan

Source: Ministry of Finance and, where indicated, 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;
- to improve governance;
- to develop social and human capital;
- to provide energy, water and food security; and
- to modernise transport, infrastructure and regional connectivity.

The Government's three-year finance programme with the IMF - concluded in September 2016 - provided an institutional framework for the Government's economic policy objectives. Pursuant to its financing arrangements with the IMF, Pakistan was subject to quarterly economic review by the IMF officials for consideration by the executive board of the IMF. On 4 August 2016, IMF staff completed the twelfth and final review of Pakistan's economic performance. This entitles Pakistan to the release of the residual SDR 73 million (U.S.\$102 million) as agreed by an IMF executive board meeting held at the end of September 2016. With the release of the last tranche, total disbursements under the arrangement will be SDR 4.39 billion (approximately U.S.\$6.64 billion).

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, trade reform and privatisation, corporatisation and restructuring of SOEs, including reform of the Pakistan Water and Power Development Authority (**WAPDA**) and financial sector reform. See "*Structural Economic Reforms*" 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.

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 2015-16 represented 4.6 per cent of GDP, compared to 5.3 per cent of GDP in 2014-15 and 8.2 per cent in 2012-13. The Government's fiscal deficit target for 2018 is 3.5 per cent of GDP, based on its policy

of improving revenue collections, tax reform measures, phasing out electricity subsidies, and other measures described below. As of 30 June 2016, the Government has eliminated tax exemptions and loopholes worth Rupees 225 billion that had been created through Statutory Regulation Orders (**SROs**) implemented by Pakistan's former government.

- **GDP Growth.** Real GDP growth was 4.71 per cent for 2015-16 (4.04 per cent in 2014-15) and is forecast at 5.7 per cent for 2016-17. The has been driven by a general increase in economic activity across the industrial and service sectors, offset by a contraction in growth in the agricultural sector in 2015-16 due to extreme weather conditions and pests.
- **Inflation.** The Government's target for inflation in 2015-16 was 6.0 per cent and actual inflation was 2.86 per cent which was the lowest level in over four decades (4.53 per cent in 2014-15). The inflation target for 2016-17 is also 6.0 per cent. Weak global commodity prices (principally palm and soya oil, crude oil, fertilisers and tea) and better food supply in Pakistan along with prudent fiscal and monetary management helped to reduce inflation. Inflation is expected to plateau in 2016-17. Year on year CPI inflation increased to 4.1 per cent in July 2016, 3.6 per cent in August 2016, and 3.9 per cent in September 2016 from 1.9 per cent, 1.8 per cent and 1.3 per cent in the respective months of last year.
- **Balance of Payments.** The Government has taken measures to increase foreign exchange inflows through accessing the global capital markets, the implementation of structural reforms and prudent fiscal policies. As a result, Pakistan's balance of payments situation has improved significantly since the Government took office in 2013. Foreign exchange reserves (inclusive of reserves held by local banks, but excluding gold reserves) increased to U.S.\$23.1 billion at the end of 2015-16, compared to U.S.\$18.7 billion at the end of 2014-15 and U.S.\$14.1 billion at the end of 2013-14, supported by low global oil prices (which decreased the costs of Pakistan's principal commodity imports, including palm oil, soya oil, crude oil, fertilisers and tea), increased inflow of workers' remittances, SBP interventions and multilateral and bilateral disbursements.
- **Debt.** Pakistan's external debt was approximately 19.5 per cent of GDP at the end of March 2016 and is predicted by the Government to remain at this level for 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 2012-13, 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. However, growth has improved in recent years and real GDP growth averaged 2.8 per cent from 2008-09 to 2012-13 and began to revive in 2013-14 when GDP growth averaged 4.05 per cent, reaching 4.04 per cent growth in 2014-15 and 4.71 per cent growth in 2015-2016.

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*”.

The Government has taken measures to improve the GDP growth trajectory, primarily by implementing financial inclusion initiatives including, in the agricultural sector, to provide producers with crop and livestock insurance and better access to credit. See “*Principal Sectors of the Economy – Financial Services*” and “*Principal Sectors of the Economy – Financial Sector Regulation*”.

Despite these improvements, Pakistan's growth has been constrained by efforts to combat extremism in the country.

**Poverty Reduction.** During 2015-16, Rupees 1,123 billion, was spent under the Poverty Reduction Strategy Paper (**PRSP II**) aiding Pakistan’s economic growth generally, particularly through 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 1,566 (approximately U.S.\$15) per month to eligible families. Currently BISP is helping 5.3 million poor households across Pakistan through monthly cash grants and currently accounts for approximately 0.5% of GDP. Since 2008 the Government has disbursed approximately Rupees 412 billion in unconditional cash grants. In addition, the Government supports primary school enrolment and provides cash grants of Rupees 250 per child each month. Since 2008, a total of Rupees 2.4 billion in cash grants has been disbursed against an enrolment of an additional 1.3 million children into primary schools.

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 former *Waseela-e-Haq* initiative (described under “*Overview of Pakistan’s Economy – Economic Policy Objectives – Poverty Reduction*”), Rupees 2.2 billion had been disbursed to 13,445 beneficiaries from 2008 to 2013. Under other BISP initiatives, 58,528 individuals from BISP beneficiary families have been provided vocational and technical training, over 4.1 million families have received three years of life and health insurance for income earners. The *Waseela-e-Haq* initiative was discontinued as of December 2013.

BISP is now collaborating with other social and productive organisations in the domain of microfinance and skills training. Under these initiatives more than 120,000 beneficiaries of their family members were provided with microfinance interest free loans and around 17,000 beneficiaries or their family members were given skills training. Home made products of BISP beneficiaries have raised Rupees 1,500,000 in revenue through online sales, directly benefitting the poor families.

In 2015-16, the total budget allocation for BISP was Rupees 102 billion which increased from Rupees 75 billion in 2014-15. Pakistan also receives multilateral funding for BISP, which includes U.S.\$268 million received in 2015-16 from the UK Department for International Development out of a total commitment of U.S.\$480 million between 2012-2020, as well as an estimated U.S. \$120 million received from the Asian Development Bank. The World Bank’s disbursements stand at approximately U.S.\$200 million.

In order to account for the negative impact of inflation on the monthly cash grant awarded under BISP, there has been a gradual increase in payments since July 2013 from Rupees 1,000 to Rupees 1,566 per month per family.

According to the Labour Force Survey 2014-15, employment has risen over the past two years, with much of the increase coming from self-employed women in urban areas:

**Employed Labour Force**

	2013-14			2014-15		
	Total	Male	Female	Total	Male	Female
	(millions)			(millions)		
Pakistan	56.52	43.33	13.19	57.42	44.07	13.35
Rural	39.08	27.83	11.25	39.85	28.42	11.43

	17.44	15.50	1.94	17.57	15.65	1.92
<b>Unemployed Labour Force</b>	<b>2013-14</b>			<b>2014-15</b>		
	<b>Total</b>	<b>Male</b>	<b>Female</b>	<b>Total</b>	<b>Male</b>	<b>Female</b>
	<i>(millions)</i>			<i>(millions)</i>		
Pakistan	3.58	2.32	1.26	3.62	2.31	1.31
Rural	2.06	1.27	0.79	2.10	1.28	0.82
Urban	1.52	1.05	0.47	1.52	1.03	0.49

#### Employed-Distribution by Employment Status and Gender

	<b>2013-14</b>			<b>2014-15</b>		
Employment Status	<b>Total</b>	<b>Male</b>	<b>Female</b>	<b>Total</b>	<b>Male</b>	<b>female</b>
	<i>(%)</i>			<i>(%)</i>		
<b>Total</b>	<b>100.00</b>	<b>62.57</b>	<b>37.43</b>	<b>100.00</b>	<b>60.73</b>	<b>39.27</b>
Employers	-	-	-	-	-	-
Self Employed	30.30	21.43	8.88	23.69	15.96	7.73
Contributing Family Workers	29.20	12.22	16.98	29.06	14.09	14.97
Employees	40.50	28.93	11.57	47.25	30.68	16.57

Source: Labour Force Survey 2014-15

Average monthly wages have also increased in every major industry division during the last two years:

#### Average Monthly Wages of Employees by Major Industry Divisions

	<b>2013-14</b>			<b>2014-15</b>		
Industry Division	<b>Total</b>	<b>Male</b>	<b>Female</b>	<b>Total</b>	<b>Male</b>	<b>Female</b>
	<i>(Rupees)</i>			<i>(Rupees)</i>		
<b>Total</b>	<b>13,155</b>	<b>14,079</b>	<b>8,228</b>	<b>14,971</b>	<b>15,884</b>	<b>9,760</b>
Agriculture, forestry, hunting and fisheries	6,327	7,995	4,236	7,804	9,041	6,345
Mining and Quarrying	17,971	17,971	-	14,968	15,064	8,000
Manufacturing	11,720	12,716	4,953	13,478	14,465	5,435
Electricity, gas and water	23,060	23,251	14,486	25,379	25,626	15,703
Construction	11,008	11,031	8,563	12,032	12,040	10,705
Wholesale, retail; restaurants and hotels	9,706	9,729	9,302	10,711	10,710	10,740
Transport, storage and communication	14,950	14,972	20,517	16,220	16,158	24,900



Financing, insurance, real estate and business services	35,194	35,280	31,182	36,659	36,805	33,985
Community, social and personal services	18,932	20,758	13,508	21,443	23,746	14,493

Source: Labour Force Survey 2014-15

**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 through local body elections, downsizing/rightsizing of government offices, judicial and police reform and the introduction of transparency in economic decision-making processes.

### **China-Pakistan Economic Corridor (CPEC)**

The aim of CPEC 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. The CPEC programme has two main components. Firstly, it aims to progress 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. Second, the development of special economic zones along the corridor, including power and transport projects.

The first-phase projects are expected to receive U.S.\$45.69 billion, approximately 20 per cent of Pakistan's annual GDP, in concessionary and commercial loans. Financing for the Chinese companies involved is being arranged by Chinese financial institutions including the Silk Road Fund, a state owned investment fund of the Chinese government.

An agreement in relation to the first phase was signed between Pakistan and China in April 2015. Of the U.S.\$45.69 billion budgeted, approximately U.S.\$28 billion is to be allocated to fast-tracked projects to be developed by the end of 2018 and to projects aimed at generating over 10,400MW of energy capacity to be developed between 2018 and 2020. Electricity from these projects will primarily be generated by coal, though wind projects are included under CPEC, as is the construction of one of the world's largest solar energy plants.

The funding for CPEC is to come from a variety of sources including a U.S.\$230 million grant from the Chinese Government for a new airport in Gwadar.

Details of the CPEC projects, a number of which have since commenced, are as follows:

#### **Energy.**

- the development of two coal mines in the Tharparkar District of Sindh province, which are to have a combined output of 13.3 metric tons per annum once in full commercial operation, which is expected to be in 2018-19. A total of U.S.\$2,770 million is to be invested in this project;
- the construction of electricity transmission lines from Matiari to Lahore which is expected to complete in 2018-19 at a cost of U.S.\$1,500 million;
- the construction of the Gwadar to Nawabshah section of the Iran-Pakistan Gas Pipeline Project which is expected to commence later in 2016 subject to clarity in relation to the lifting of sanctions (See below – “Iran-Pakistan Gas Pipeline Project”); and
- the following power projects:

Project	Net Capacity (MW)	Source	Estimated Cost (U.S.\$ millions)	Scheduled Completion
Port Qasim Electric Power Project .....	2x660	Coal	1,980	2018
Sahiwal Power Plant.....	1,320	Coal	1,600	2017
EngroThar Coal-fired Power Plant .....	4x330	Coal	2,000	2018
SSRL Power Plant-Thar Coal Block 1 .....	2x660	Coal	2,000	2018/19
Gwadar Project.....	300	Coal / LNG / Oil	360	Unknown
SukiKinari Hydropower Project .....	870	Hydropower	1,802	2020/21
Karot Hydropower Project.....	720	Hydropower	720	2020
Sachal Wind Power .....	50	Wind	134	2017
Hydro China Dawood Power Wind Power Project.....	50	Wind	125	2016
UEP Wind Power.....	100	Wind	250	2016
Zonergy Solar Project, Bahawalpur.....	900	Solar	1,350	2016
Gaddani Power Park Project.....	2x660	Coal	3,960	Unknown
Muzaffargarh Coal Based Power Project ....	2x660	Coal	1,600	Unknown
Oracle Thar Coal Based Power Plant .....	2x660	Coal	1,300	Unknown
Hubco - Coal Based Coastal Power Project.....	660	Coal	970	2018/19
KohalaHydel Power Project .....	1,100	Hydropower	2,397	2023
Jhimpir Wind Based Power .....	100	Wind	150	2018
<b>Total.....</b>	<b>14,090</b>		<b>22,698</b>	

### **Transport.**

- the upgrade and widening of the 130km Thakot - Havelian section of the Karakoram Highway, to be funded by a Government loan of U.S.\$1,366 million, commenced in May 2016 and due to complete in 2018;
- the upgrade and widening of the 470km Multan - Sukkur section of the Karachi - Peshawar Motorway, to be funded by a Government loan of U.S.\$2,980 million, commenced in May 2016 and due to complete in 2018;
- the expansion and reconstruction of the Karachi – Peshawar line railway at a cost of U.S.\$8,130 million to be completed in 2018; and
- the construction of Havelian dry port at Havelian railway station at a cost of U.S.\$65 million to be completed in 2018.

**Gwadar port.** The Gwadar port project component of CPEC 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 of the Gwadar port project, whilst involving

Chinese investment, pre-dates CPEC. The project comprised 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 and, shortly after the CPEC programme was announced, in April 2015 Pakistan officially handed over operational rights of Gwadar port to that company for the next forty years. The Gwadar Port Authority, under the Ministry of Ports and Shipping, is ultimately 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 dry bulk cargo handled at the port since opening in 2006 through June 2015 was over 6.329 million Mt. See summary details above and also “*Energy in Pakistan – LNG*” below for a description of the LNG terminal and related 700 kilometres Gwadar to Nawabshah pipeline currently under construction.

A number of major projects are to be commenced in Gwadar with Chinese assistance, including:

<b>Project</b>	<b>Estimated Cost (U.S.\$ million)</b>	<b>Status</b>
Gwadar East Bay Expressway .....	140	Work to commence in December, 2016
New Gwadar International Airport .....	230	Work to commence in December, 2016
Water supply project .....	130	Master plan for water supply being finalized
Gwadar 300MW Power project .....	360	Conversion from sub critical coal to LNG / oil under consideration
Technical and Vocational Institute.....	10	Grant request sent by Pakistan to Chinese Ministry of Commerce. Response awaited.
Pak China Friendship Hospital.....	100	Grant request sent by Pakistan to Chinese Ministry of Commerce. Response awaited.
Establishment of Gwadar Free Zone.....	32	Work to commence in December, 2016
Port breakwaters.....	123	Feasibility Study initiated
Dredging of Berthing Areas & channels.....	27	Business Plan awaited from Chinese port operator
<b>Total.....</b>	<b>1,152</b>	

**Communications.** China and the Government have successfully piloted a project for digital terrestrial multiband broadcast in Gwadar, the TV standard for mobile and fixed terminals used in China. In addition, work has started on a U.S.\$15 million cross-border fibre optic project between Khunjerab and Rawalpindi which commenced in October 2015 and is due to complete by December 2017.

## 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 tax-to-GDP ratio was increased to 11 per cent in 2015-16 from 9.8 per cent. in 2014-15. The aim is 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 private sector participation in SOEs and stimulate direct investment in Pakistan. Privatisation, particularly in the energy sector, 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 current privatisation program is modelled around the concept of Public-Private Partnership, wherein management of public sector enterprises (**PSEs**) is planned to be transferred to strategic investors. The program also includes divestments through strategic sales and capital markets to enhance the attractiveness and visibility of Pakistan for investment.

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 privatisation program in 2013 by identifying 31 entities for early privatisation, as approved by the CCOP in its meeting held in October 2013. Subsequently, the CCOP, in its meeting held in June 2014, approved 8 additional entities for early privatisation. Since April 2014, the Privatisation Commission has successfully completed four capital market transactions; an offering of the Government of Pakistan's 19.8 per cent ownership in United Bank Limited in June 2014, an offering of 5 per cent of the Government of Pakistan's ownership in Pakistan Petroleum Limited in June 2014, an offering of the Government of Pakistan's 11.5 per cent ownership in Allied Bank Limited in December 2014 and an offering of the Government of Pakistan's 41.5 per cent ownership in Habib Bank Limited in April 2015. Furthermore, the Government successfully completed the strategic sale of its 88 per cent ownership in National Power Construction Corporation (Pvt.) Limited in September 2015. In total, the Privatisation Commission has raised Rupees 170.87 billion, including over U.S.\$1.128 billion in foreign exchange, from these completed transactions.

The Privatisation Committee in consultation with Aviation Division of the Government has also agreed to a restructuring proposal of Pakistan International Airlines (**PIA**), for identification of core and non-core business segments with a detailed plan of implementation for restructuring. The Government intends to maintain a majority of shares and management control of PIA.

However, the Government plans to attract private sector participation by way of sale of a minority stake in the core business.

See “-Failure to implement economic reforms may have a negative effect on the performance of Pakistan’s economy” above for more information on the delays to the privatisation programme.

The Privatisation Commission aims to pursue the following road-map through June 2017:

Entity	Approximate Government Holding (including BESOS <sup>(1)</sup> ) (%)	Divestment Size/Mode
Kot Addu Power Company (KAPCO)	46	Strategic sale
Mari Petroleum Company Limited (MPCL)	18	Divestment of residual shares
State Life Insurance Corp. (SLIC)	100	Initial Public Offering (IPO)
Small and Medium Enterprises Bank Limited	94	Strategic Sale
Pakistan Steel Mills Corporation (PSMC)	100	Strategic Sale
Faisalabad Electric Supply Company (FESCO)	100	Initial Public Offering (IPO)
Islamabad Electric Supply Company (IESCO)	100	Initial Public Offering (IPO)

(1) Benazir Employee Share Option Scheme, which offers a 12 per cent share in public sector enterprises to their employees.

Source: Privatisation Commission

**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. Partly as a result of trade liberalisation, Pakistan’s exports were U.S.\$22.0 billion in 2015-16. The Ministry of Commerce has formulated a medium term Strategic Trade Policy Framework (STPF) covering the three years 2015-18. The STPF 2015-18 will include plans to enhance Pakistan’s export competitiveness by way of initiatives relating to product diversification, value addition, trade facilitation and enhanced market access. An allocation of Rs 6 billion has been made to support the initiatives.

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 general increase in Pakistan’s exports to India (U.S.\$400 million in 2015-16, U.S.\$414 million in 2014-15, and U.S.\$423 million in 2013-14 compared to U.S.\$329 million in 2012-13) and the increase in Pakistan’s imports from India (U.S.\$1,809 million in 2015-16, U.S.\$1,424 million in 2014-15, and U.S.\$1,757 million in 2013-14 compared to U.S.\$1,678 million in 2012-13).

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. As a result of GSP+, Pakistan’s exports to the EU have increased from U.S.\$5.30 billion during 2013 to US\$6.73 billion in 2016. The Government believes that GSP+ generated nearly one million new jobs in Pakistan since 2013, 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.

Pakistan’s investment-to-GDP ratio has increased from 14.12 per cent in 2010-11 to 15.21 per cent in 2015-16.

**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. An independent company, the Central Power Purchasing Agency Company (Guarantee) Limited has recently taken over responsibility for the settlement, administration and development of competitive power markets from the NTDC.

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-customer, 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 economic 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.

Since the global financial crisis and in common with many other central banks and financial regulatory authorities in other jurisdictions, financial stability has been, and continues to be, the SBP's key objective for the purpose of ensuring a robust and sound financial system that can withstand shocks without disrupting financial intermediation and general financial services. As a step towards achieving this key objective and with a view to institutionalizing the financial stability function, the SBP has created a dedicated Financial Stability Department.

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 for some years, it has shown an uplift in 2015-16 due to better energy supply conditions. It remained at 21.02 per cent of GDP in 2015-16. The share of the agriculture sector declined from its highest level of approximately 39 per cent of GDP in 1969-70 to 19.82 per cent of GDP in 2015-16; the share of the services sector increased from 45 per cent of GDP in 1969-70 to 59.16 per cent of GDP in 2015-16.

The following table sets out Pakistan's GDP at constant basic prices of 2005-06, as well as the contribution of various sectors of the economy to GDP in the period 2011-12 to 2015-16.

Sectors	2011-12	2012-13	2013-14	2014-15	2015-16(1)	2014-15/2013-14	2015-16/2014-15
<b>Rupees millions, unless otherwise stated)</b>						<b>(% change)</b>	
<b>A. Services Sector ....</b>	<b>5,437,145</b>	<b>5,716,248</b>	<b>5,971,163</b>	<b>6,228,669</b>	<b>6,584,437</b>	<b>4.3</b>	<b>5.7</b>
1. Wholesale and retail trade.....	1,746,511	1,808,124	1,894,410	1,944,253	2,033,100	2.6	4.6
2. Transport, storage and communication.....	1,254,126	1,304,697	1,355,570	1,421,265	1,479,021	4.8	4.1
3. Finance and insurance .....	279,171	302,392	315,428	335,584	362,187	6.5	7.8
4. Housing services (ownership of dwellings).....	639,003	664,542	691,093	718,673	747,354	4.0	4.0
5. General government services.....	632,130	703,717	723,823	758,746	843,211	4.8	11.1
6. Other private services.....	886,204	932,776	990,839	1,049,878	1,119,564	6.0	6.6
<b>B. Agricultural Sector .....</b>	<b>2,048,794</b>	<b>2,103,600</b>	<b>2,156,117</b>	<b>2,210,647</b>	<b>2,206,357</b>	<b>2.5</b>	<b>(0.2)</b>
1. Crops .....	832,128	844,860	867,133	876,147	821,358	1.0	(6.3)
Important crops .....	523,936	524,839	562,707	559,792	519,579	(0.3)	(7.2)
Other crops .....	245,007	258,670	243,890	251,435	250,658	1.0	(6.3)
Cotton ginning...	63,185	61,351	60,536	64,920	51,121	7.2	(21.3)
2. Livestock.....	1,130,740	1,169,712	1,198,671	1,246,525	1,291,836	4.0	3.6
3. Forestry.....	42,874	45,695	46,555	41,699	45,384	(10.4)	8.8
4. Fisheries .....	43,052	43,333	43,758	46,276	47,779	5.8	3.2
<b>C. Industrial Sector ...</b>	<b>1,984,316</b>	<b>1,999,207</b>	<b>2,089,776</b>	<b>2,190,345</b>	<b>2,339,241</b>	<b>4.8</b>	<b>6.8</b>
1. Mining and quarrying.....	283,727	294,727	299,588	310,715	331,853	4.0	6.8
2. Manufacturing ...	1,252,670	1,313,365	1,387,556	1,441,679	1,513,752	3.9	5.0
Large scale.....	1,018,706	1,064,185	1,122,266	1,159,231	1,212,650	3.3	4.6
Small scale .....	144,713	156,691	169,677	183,628	198,695	8.2	8.2
Slaughtering ....	89,251	92,489	95,613	98,820	102,407	3.4	3.6
3. Electricity generation and distribution and gas distribution.....	224,490	165,275	164,054	183,700	206,067	12.0	12.2



Sectors	2011-12	2012-13	2013-14	2014-15	2015-16(1)	2014-15/2013-14	2015-16/2014-15
<b>Rupees millions, unless otherwise stated)</b>						<b>(% change)</b>	
4. Construction.....	223,429	225,840	239,310	254,251	287,569	6.2	13.1
<b>Commodity Producing Sector (B+C).....</b>	<b>4,033,110</b>	<b>4,102,807</b>	<b>4,245,893</b>	<b>4,400,992</b>	<b>4,545,598</b>	<b>3.7</b>	<b>3.3</b>
GDP at factor cost.....	9,470,255	9,819,055	10,217,056	10,629,661	11,130,035	4.04	4.7
Indirect taxes.....	533,424	519,054	556,679	616,350	716,693	10.7	16.3
Subsidies.....	269,772	176,255	130,844	107,861	69,134	(21.2)	(35.9)
GDP at market price.....	9,733,907	10,161,854	10,636,891	11,138,150	11,777,594	4.7	5.7
Net factor income from abroad.....	386,559	403,132	474,006	548,902	687,849	15.8	25.3
GNI at factor cost.....	9,856,814	10,222,187	10,691,062	11,178,560	11,817,880	4.6	5.7
GNI at market price.....	10,120,466	10,564,986	11,110,897	11,687,052	12,465,443	5.2	6.7
Population (million).....	178.9	182.5	186.2	189.9	193.6	2.0	1.9
Per capita income at factor cost.....	56,567	57,881	57,420	58,875	61,055	2.5	3.7

Source: Pakistan Bureau of Statistics

The following table sets out Pakistan's GDP at current basic prices, as well as the contribution of various sectors of the economy to GDP in the period 2011-12 to 2015-16:

Sectors	2011-12	2012-13	2013-14	2014-15	2015-16 <sup>(1)</sup>	2014-15/2013-14	2015-16/2014-15
<b>Rupees millions, unless otherwise stated)</b>						<b>(% change)</b>	
<b>A. Services Sector.....</b>	<b>10,338,770</b>	<b>11,642,671</b>	<b>13,012,586</b>	<b>14,359,575</b>	<b>15,516,241</b>	<b>10.4</b>	<b>8.1</b>
1. Wholesale and retail trade.....	4,006,835	4,369,465	4,924,462	5,085,934	5,203,573	3.3	2.3
2. Transport, storage and communication....	1,905,704	2,311,796	2,474,818	3,105,780	3,570,442	25.5	15.0
3. Finance and insurance.....	570,503	522,327	584,074	605,108	542,289	3.6	(10.39)

Sectors	2011-12	2012-13	2013-14	2014-15	2015-16 <sup>(1)</sup>	2014-15/2013-14	2015-16/2014-15
Rupees millions, unless otherwise stated)						(% change)	
4. Housing services (ownership of dwellings) .....	984,148	1,092,749	1,229,110	1,371,444	1,506,452	11.6	9.8
5. General government services.....	1,244,687	1,486,115	1,660,434	1,818,477	2,080,066	9.5	14.4
6. Other private services.....	1,626,893	1,860,219	2,139,668	2,372,832	2,613,419	10.9	10.1
<b>B. Agricultural Sector .....</b>	<b>4,753,075</b>	<b>5,334,976</b>	<b>5,976,217</b>	<b>6,562,832</b>	<b>7,040,873</b>	<b>9.8</b>	<b>7.3</b>
1. Crops.....	1,966,610	2,192,553	2,612,933	2,713,832	2,624,689	3.9	(3.3)
Important crops .....	1,236,453	1,411,388	1,760,329	1,754,847	1,726,691	(0.3)	(1.6)
Other crops.....	586,669	639,078	695,138	774,213	734,096	11.4	(5.2)
Cotton ginning.....	143,488	142,087	157,467	184,772	163,632	17.3	(11.4)
2. Livestock .....	2,610,408	2,933,384	3,129,682	3,611,958	4,146,136	15.4	14.8
3. Forestry.....	113,103	136,500	153,722	146,169	166,196	(4.9)	13.7
4. Fisheries.....	62,954	72,358	79,880	90,873	103,852	13.8	14.3
<b>C. Industrial Sector .....</b>	<b>4,269,666</b>	<b>4,525,694</b>	<b>5,040,094</b>	<b>5,217,366</b>	<b>5,347,977</b>	<b>3.5</b>	<b>2.5</b>
1. Mining and quarrying .....	642,205	696,976	741,022	700,419	650,480	(5.5)	(7.1)
2. Manufacturing.....	2,809,684	3,037,311	3,408,468	3,507,017	3,552,798	2.9	1.3
Large scale ....	2,362,410	2,519,037	2,824,463	2,850,224	2,844,358	0.91	(0.2)
Small scale ....	241,951	283,107	327,030	373,317	405,187	14.2	8.5
Slaughtering...	205,323	235,167	256,975	283,476	303,253	10.31	7.0
3. Electricity generation and distribution and gas distribution ....	439,637	368,040	406,192	474,335	552,105	16.8	16.4
4. Construction ....	378,140	423,367	484,412	535,595	592,594	10.6	10.6
<b>Commodity Producing Sector (B+C).....</b>	<b>9,022,741</b>	<b>9,860,670</b>	<b>11,016,311</b>	<b>11,780,198</b>	<b>12,388,850</b>	<b>6.9</b>	<b>5.1</b>
GDP at factor cost.....	19,361,511	21,503,341	24,028,897	26,139,773	27,905,091	8.8	6.8
Indirect taxes .....	1,221,540	1,275,990	1,480,099	1,633,881	1,876,016	10.4	14.8

Sectors	2011-12	2012-13	2013-14	2014-15	2015-16 <sup>(1)</sup>	2014-15/2013-14	2015-16/2014-15
Rupees millions, unless otherwise stated)						(% change)	
Subsidies .....	536,551	393,674	340,191	280,549	183,202	(17.5)	(34.7)
GDP at market price.....	20,046,500	22,385,657	25,168,805	27,493,105	29,597,905	9.2	7.7
Net factor income from abroad .....	1,035,707	1,116,607	1,428,227	1,674,811	1,868,679	17.3	11.6
GNI at factor cost.....	20,397,218	22,664,948	25,457,124	27,814,584	29,773,770	9.3	7.0
GNI at market price.....	21,082,207	23,547,264	26,597,032	29,167,916	31,466,584	9.7	7.9
Population (million) .....	178.9	182.5	186.2	189.9	193.6	2.0	1.9
Per capita income at factor cost.....	114,008	124,171	136,727	146,493	153,822	7.1	5.0
Per capita income at market price	117,837	129,005	142,849	153,620	162,568	7.5	5.8
Per capita income at market price (US\$)	1,320	1,334	1,389	1,517	1,561	9.2	2.9
GDP deflator Index	204.4	219.0	235.2	245.9	250.7	4.6	2.0
GDP deflator (% growth)	5.7	7.1	7.4	4.6	2.0	-	-

(1) Provisional.

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 59.2 per cent of GDP in 2015-16, growing by 5.7 per cent in 2015-16 compared to 58.8 per cent of GDP (and growth of 1.3 per cent) in 2008-09. 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. A 24 kilometre, 24 station Rawalpindi to Islamabad metro-bus project was completed and began operation in June 2015 and currently operates 68 buses on the new route. Average daily capacity is estimated at 180,000 people. 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 263,942 kilometres. This includes the National Highway Authority's (NHA) network of approximately 12,131 kilometres 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 kilometres 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 kilometres) 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 35 new development projects in 2015-16 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.

The Government is taking a number of initiatives to improve performance of Pakistan Railways. The aim is to increase Pakistan Railways' share in the overall transport sector of Pakistan from 4 per cent to 20 per cent. Initiatives include steps to revive the Railways Board, rationalisation of tariffs, renovation of old and procurement of new locomotives, improvement of the HSD oil reserve and a framework agreement entered into on 20 April 2015 between the National Railway Administration of the Government of the Peoples Republic of China and the Ministry of Railways on a joint feasibility study for upgrading Mainline 1 and the establishment of the Havelian Dry Port of Pakistan Railways. The Asian Development Bank has agreed to provide U.S.\$2 billion financing for the Mainline 1 upgrade, expected to complete in the next 10 years. The operation of freight trains from Karachi to up-country was expanded over the period 2013-15 and the number of freight train journeys has been increased 1,504 per cent from 182 in 2012-13 to 2,920 in 2014-15. As a result of these initiatives, Pakistan Railways gross earnings increased from Rupees 18,071 million in 2012-13, to Rupees 22,800 million in 2013-14, to 31,972 million in 2014-15. However gross earnings fell to Rupees 26,436 million in 2015-16.

- **Civil Aviation.** In 2014, Pakistan International Airlines (PIA) embarked upon a programme of modernisation focused on replacing its fleet. Fuel efficient aircraft were acquired during 2014-15 on a wet and dry lease basis. In 2015-16 nine aircraft were retired from operation due to inefficiencies and, as a result, the average age of the fleet decreased from 17 to 14 years.

Also in 2014, PIA entered into an agreement with General Electric (GE) to overhaul and carry out maintenance of the PIA Boeing Aircraft engines and to provide finance for advanced, fuel-efficient engines and to enable PIA to lease additional aircraft. The

finance for this programme amounts to U.S.\$55.0 million and is provided by both GE and the Islamic Corporation for the Insurance of the Investment and Export Credit.

Measures taken by management have had a positive impact on passenger revenues. The combined effect of an increase in seats (79.9 per cent) and in yield resulted in an almost 5.5 per cent increase in passenger revenue. Measures taken by the management included, among other things, fleet modernisation, route rationalisation and steps toward cost cutting. Operations on loss making routes were discontinued and frequencies were increased on profitable routes. Despite increasing costs, PIA was able to register a significant decline in its overall annual losses in 2014 and recorded an operating profit in the first quarter of 2015 of Rupees 2.83 billion as a result of declining fuel costs and the introduction of new aircraft.

An eight day strike in February 2016 cost PIA an estimated Rupees 4.31 billion and resulted in the cancellation of over 900 flights. The PIA's expected net loss for the first quarter of 2016 is Rupees 5.7 billion.

- **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 41.4 million Mt of cargo in 2013-14, 43.42 million Mt of cargo in 2014-15 and 36,516 mt of cargo in 2015-16. Port Qasim, located 50 kilometres south-east of Karachi, is Pakistan's deepest sea 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 25.8 million Mt in 2013-14 and 30.0 million Mt of cargo in 2014-15, experiencing significant growth. This has been reversed in 2015-16 as Port Qasim's handled volume for the year reduced to 23,782 Mt of cargo.

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. The deep water channel is expected to complete by December 2016. 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 and in April 2015 Pakistan officially handed over operational rights of Gwadar port to that company for the next forty years. The Gwadar Port Authority, under the Ministry of Ports and Shipping, is ultimately 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. See "*China Pakistan Economic Corridor (CPEC) -Gwadar*" above for details on each of the projects currently proposed. The total dry bulk cargo handled at the port since opening in 2006 through June 2015 was over 6.329 million Mt. See also "*Energy in Pakistan – LNG*" below for a description of the LNG terminal and related 700 kilometres Gwadar to Nawabshah pipeline currently under construction.

A number of major projects are to be commenced in Gwadar with Chinese assistance, including Gwadar Port West Bay Expressway, Gwadar Port Free Zone, a 60-acre Sino-Pakistani products display centre, Gwadar International Airport and an LNG terminal and pipeline See "*China-Pakistan Economic Corridor (CPEC)*".

In addition, Gwadar Port Authority is currently carrying projects with local funding in relation to the development and construction of bank branches, stevedores offices, agency offices, custom clearing agents, containers freight stations, container

repair/testing yard, cold storage, cargo storage sheds, marine repair workshop, seamen centre, rest house, canteen, utility stores and upgrades to the Gwadar Port Authority housing complex.

The National Highway Authority has expedited two road construction projects (the **N-85 and M-8**) so as to improve Gwadar port's connectivity. The northern portion of the M-8 was completed in February 2016 to connect the port with the north-south corridor through Khuzdar-Rathodero. The remaining portions of the N-85 and southern portion of M8 are to be completed by December 2016. This new road infrastructure will reduce distances between the regions of Pakistan and other countries which currently make use of the port.

Between 2008 and 2016, the port has handled 26 wheat shipments (963,609 Mt), 150 urea shipments (5,366,003.0Mt) and 20 shipments of fish.

### **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 2015-16. The total mobile connections of five mobile operators were 133.24 million as at 30 June 2016. Teledensity was approximately 70.81 per cent (based on connections) as at 30 June 2016, an increase of 12.6 per cent during 2015-16. At the same time, increased competition among cellular operators resulted in lower tariffs for consumers. In 2015-16 Mobilink had 29.4 per cent of the market, Telenor 28.6 per cent, Ufone 14.9 per cent, CMPak 18.9 per cent and Warid 8.3 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 2016, Pakistan had 0.5 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:

	<b>2012-13</b>	<b>2013-14</b>	<b>2014-2015</b>	<b>Jul-Mar 2016</b>
	<i>(U.S.\$ million)</i>			
Cellular.....	570.4	1,789.7	977.6	557.3
Long distance international services .....	1.9	1.8	12.2	3.7
Local loop.....	16.1	14.2	3.9	28.0
Wireless local loop .....	11.9	10.0	7.2	0.0

<b>Total .....</b>	<b>600.3</b>	<b>1,815.6</b>	<b>1001.0</b>	<b>589.0</b>
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Source: Economic Survey 2015-16

Broadband subscriber percentage growth in Pakistan has been significant. Subscriptions have increased from minimal levels in 2005 to 32.3 million by the end of June 2016, with a penetration rate of 15.3 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 2015-16, the telecommunications sector attracted over U.S.\$2,743 million of FDI (net of outflows), 14.4 per cent of the total FDI received by Pakistan that period. The Government auctioned spectrum for Next Generation Mobile Services including 3G and 4G in 2014. The auction concluded in May 2014 with a total value of U.S.\$1.11 billion. As of 1 September 2016, U.S.\$1.06 billion of the auction proceeds have been paid to the Government, contributing significantly to FDI, with the balance due in three equal annual instalments over the next three years. The instalments are to be paid with interest of LIBOR + 3.5 per cent per annum on the outstanding balance.

### **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, microfinance banks and exchange companies, while the SECP monitors the remaining financial institutions.

At present, the banking industry in Pakistan consists of 35 commercial banks, eight development finance institutions and nine nation-wide, and two province-wide microfinance banks. The commercial banks comprise five public sector banks, 16 private sector banks, six Islamic commercial banks, four 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, standing facilities, 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. In order to enhance the effectiveness of monetary policy and to better manage the liquidity in the interbank market, SBP improved the structure of its Interest Rate Corridor (**IRC**) framework. The main feature of this improved framework was introduction of a new target policy rate for the money market overnight repo rate as the main policy rate. The main objective of adopting an improved IRC by SBP was to stabilize short-tenor interest rates around the target rate for the smooth transmission of monetary policy.

Under the State Bank of Pakistan Act 1956 (the **SBP Act**), 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. Proposals have been made to amend the SBP Act to give the SBP more independence by establishing independent decision-making committees to design and monitor the implementation of monetary policy and strengthening the personal autonomy of Central Board members.

The Central Board currently has the 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 MFBs. Presently the cash reserve requirement for banks is at 5 per cent of the 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 MFBs it is 5 per cent of total demand deposits. In addition, the SBP requires that banks 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 MFBs 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-III 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 5.0 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 over the last few years despite macroeconomic challenges and structural issues. As such, the banking sector has achieved a high level of profitability, improved liquidity and a strong solvency position. The banking sector grew at an annual average growth rate of 14.8 per cent over the last five years (2011-2016). Its asset base stood at Rupees 15.4 trillion as at 30 June 2016. The banking sector posted profits before tax of Rupees 162.2 billion for the first half of 2016, while the capital adequacy ratio stood at 16.1 per cent as of 30 June 2016, well above the local benchmark of 10.25 per cent. and the Basel requirement of 8.625 per cent.. The level of net non-performing loans has decreased substantially over the last five fiscal years from Rupees 186.0 billion as of 30 June 2011 to Rupees 111.5 billion as of 30 June 2016 as a result of a slowdown in defaults and adequate provisioning.



The banking sector of Pakistan has attracted international banks and international investors in recent years. The Government estimates that over 50 per cent of shareholdings in commercial banks are owned by foreign investors, banks and financial institutions. The commercial banking sector comprises both locally incorporated Pakistani banks 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.

**Microfinance.** The Government and the SBP aim to promote financial inclusion through a nationwide financial literacy programme. The programme focuses on disseminating education on basic financial concepts, products and services to masses; focusing on budgeting, savings, investments, banking products and services, debt management and consumer rights and responsibilities. As of March 2016, the microfinance sector collectively (microfinance banks and non-banks microfinance institutions) served 4 million active borrowers and the sector has achieved 29.4 per cent growth in its aggregate loan portfolio which grew by Rupees 23.778 billion to Rupees 104.729 billion during the 12 month period ending March 2016.

**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 and a high level Steering Committee for promotion of Islamic banking was set up in December 2013 comprised of renowned Shariah scholars, senior government officials, industry experts and business leaders aiming to develop proposals and recommendations for transforming the financial system in conformity with Shariah principles. The SBP has adopted various initiatives to promote and develop the Islamic banking industry in Pakistan including:

- the adoption or adaptation of Accounting and Auditing Organisation for Islamic Financial Institutions and Islamic Financial Services Board Shari'ah standards;
- strengthening of Shari'ah Compliance through the issuance of a Shari'ah Governance Framework, in effect from July 2015;
- issuing criteria for the conversion of conventional banking branches into Islamic banking branches;
- revising the initial minimum capital requirement for establishing an Islamic banking subsidiary from Rupees. 10 billion to Rupees. 6 billion;

- issuing two five-year strategic plans for the Islamic banking industry; the first was issued in 2007 and second was issued in 2014;
- facilitating Islamic bank liquidity management by providing for sukuk trading on a deferred payment basis (Bai-Muajjal) or on a ready payment basis through open market operations based on a multiple price competitive bidding auction process;
- introducing regulations for domestic and international Government of Pakistan sukuk-al-ijara to provide investment avenues to Islamic banking institutions and develop the Islamic money market;
- establishing of Centres of Excellence in Islamic Finance Education;
- working with the Islamic Financial Services Board on various supervisory and regulatory aspects;
- actively participating in development of guidance notes for stress - testing of Islamic financial institutions and liquidity risk management; and
- promoting the launch of an All Share Islamic Index and the establishment of an Islamic Finance Department at Securities Exchange Commission of Pakistan.

The Islamic banking industry in Pakistan has grown significantly since its launch in 2002. The asset base of the industry stood at Rupees 1,745 billion as of 30 June 2016, compared to Rupees 1,495 billion as of 30 June 2015, representing growth of 16.8 per cent. Islamic bank deposits grew by 14.1 per cent to Rupees 1,461 billion as of 30 June 2016, compared to Rupees 1,281 billion as of 30 June 2015. The industry's asset base constitutes 11.4 per cent of the overall banking system in the country while in terms of deposits; its share in the country's banking system is 13.2 per cent. As of June 2016, 22 Islamic banking institutions; 6 fully-fledged Islamic banks (including one Islamic banking subsidiary of a conventional bank) and 16 conventional banks having standalone Islamic banking branches) are operating in the country with a network of 2,146 branches.

In recognition of the efforts of the SBP in developing Islamic finance on a sound and sustainable basis, the SBP has been voted the Best Central Bank for Promoting Islamic Finance in an international poll conducted by Islamic Finance News, an arm of Redmoney Group Malaysia.

**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).
- In April 2014, the SBP started issuing ISIN numbers for all outstanding Government Securities; including Market Treasury Bills, Pakistan Investment Bonds, Government Ijara Sukuks and treasury bills issued through Outright Open Market Operations Sales. The SBP, with the consultation and consent of the Government, introduced Fixed Rental Rate Government Ijara Sukuk in order to facilitate Sharia compliant liquidity management.

**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.

Earlier this year the Government enacted Book Building Regulations setting out mechanisms to facilitate initial public offerings, including the role and responsibilities of the main parties as well as the procedure for bidding.

### Pakistan's Stock Exchanges

Until January 2016, there were 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. Virtually all of the companies listed on the LSE and the ISE were also listed on the KSE. Following a consultation led by the SECP in August 2015, KSE, LSE and ISE signed a memorandum of understanding for their integration into one single trading platform under the name "Pakistan Stock Exchange". The Pakistan Stock Exchange (**PSX**) was established on 11 January 2016.

The following table sets out the profile of the three separate stock exchanges that existed in Pakistan prior to January 2016 for the periods stated:

	2010-11	2011-12	2012-13	2013-14	2014-15
<b>Karachi Stock Exchange</b>					
(i) Total listed companies .....	639	591	569	557	560
(ii) New companies listed .....	1	3	4	5	9
(iii) Funds mobilised ( <i>Rupees billion</i> ) .....	56.0	137.0	51.0	66.0	63.0
(iv) Total turnover of shares ( <i>Rupees billion</i> ) .....	28.0	38.1	54.3	56.6	57.2
<b>Lahore Stock Exchange</b>					
(i) Total listed companies .....	496	459	441	432	433
(ii) New companies listed .....	9	10	4	12	1
(iii) Funds mobilised ( <i>Rupees billion</i> ) .....	18.1	13.3	7.7	40.4	31.7

	2010-11	2011-12	2012-13	2013-14	2014-15
(iv) Total turnover of shares ( <i>Rupees billion</i> ) .....	1.1	0.9	1.0	0.7	0.339
<b>Islamabad Stock Exchange</b>					
(i) Total listed companies .....	264	255	250	270	273
(ii) New companies listed .....	5	8	7	4	17
(iii) Funds mobilised ( <i>Rupees billion</i> ) .....	17.8	12.8	8.1	8.1	10.386
(iv) Total turnover of shares ( <i>Rupees billion</i> ) .....	0.04	0.03	0.03	0.03	0.026

Source: Securities and Exchange Commission of Pakistan

Both debt and equity securities are traded on the PSX. Corporate debt securities are issued through TFCs, which normally carry a five-year maturity. Trading of Pakistan Government debt securities on the PSX (then 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, red chilli and the Karachi Inter Bank Offer Rate (**KIBOR**).

Three indices are used to measure the performance of the PSX: the Pakistan Stock Exchange-100 Index (formerly the KSE100 Index) (the **PSX100 Index**), the PSX-30 Index (the **PSX-30**), and the SBP Index of Share Prices (the **General Index**), produced by the SBP. The PSX100 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 PSX100 Index is based on 100 representative securities. The PSX100 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 PSX-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 PSX100 Index since 2012, together with its level as of December 31 in each year from 2012 to 2015 and 11 May 2016.

<b>PSX100 Index (formerly the KSE Index)</b>					
	2012	2013	2014	2015	2016 <sup>(1)</sup>
High .....	16,943.19	25,579.33	29,938.66	34,826.51	40,414.72
Low .....	10,909.12	16,107.89	25,261.14	27,774.43	30,276.25
Year end .....	16,905.33	25,261.14	29,652.53	32,816.31	40,414.72

Source: Reuters, Karachi Stock Exchange

(1) As at 19 September 2016

**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 regulation of the securities market. The Securities Act 2015 came into force which incorporates global standards of securities regulation and investor protection;
- measures to combine Pakistan's various stock exchanges. Following a consultation led by SECP in August 2015, KSE, LSE and ISE signed a memorandum of understanding for their integration into one single trading platform under the proposed name of "Pakistan Stock Exchange". Further, efforts are being made for divestment of 60 per cent shares of the stock exchanges to strategic investors, general public and local financial institutions;
- the introduction of a small and medium enterprises board (**SME**) at KSE and ISE to facilitate the listing of companies with small capital requirements while ensuring appropriate safeguards for investors;
- the launch of a fully automated web based announcement interface, allowing listed companies to share their sensitive and material information with investors;
- introducing the Code of Corporate Governance (March 2002). The Code of Corporate Governance is 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;
- the 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 development of regulations for the issue of commercial paper by companies with a high credit rating and for the issue of Sukuk;
- the introduction of a code of conduct for credit rating agencies in January 2014;
- the continued development of the Islamic capital market (**ICM**), through the Islamic Finance Department (**IFD**) which is currently working on Shari'ah compliance regulations for the ICM. IFD is also in the process of standardising Islamic financial

product documentation and introducing Shari'ah and Islamic Accounting Standards issued by the AAOIFI (**Accounting and Auditing Organisation for Islamic Financial Institutions**). Domestic listed Sukuk continues with a Rupees 22 billion issuance by K Electric Limited (formerly the Karachi Electric Supply Company) in May 2015, following a Rupees 10 billion issuance by the same company in 2013-14;

- the introduction of a comprehensive regulatory framework to regulate the activities of underwriters in line with international standards with the implementation of the Underwriters Rules 2015; and
- in May 2015, the Securities Act 2015 was enacted which protects investors, regulates the securities market and gives the SECP powers for investors' protection.

**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 with the Pakistan Telecommunication Authority for the development of branchless banking in Pakistan;
- implementing a number of government and donor funded programs to enhance provision of financial services to the unbanked segments, including amongst other strategic alliances, 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 credit enhancement facilities;
- revising the SBP's Branch Licensing Policy to facilitate the provision of financial services in rural and under-served areas;
- 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.

The SBP supervises the financial derivatives market and issued the Financial Derivative Business Regulations (**FDBR**) in 2014 which contains the regulatory framework for derivatives. Under the FDBR, financial derivative transactions, including foreign currency options, forward rate agreements and interest rate swaps, are permitted for the purposes of hedging an underlying exposure. Only those financial institutions that 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**) are allowed to offer these financial derivative products to their customers. Any other bank, which is not an ADD or NMI, wishing to execute a derivative transaction must seek a prior approval from the SBP. 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 the year ending 30 June 2015, its conviction rate was 56 per cent compared to 65.6 per cent in 2014. To improve its standards, NAB has recently increased the number of investigators and is developing closer relationships with its international counterparts. NAB's total headcount currently stands at 2,163, including 1,163 investigators. Its budget for 2015-16 is Rupees 2,896 million compared with Rupees 2,209 million in 2014-15 and Rupees 2,166 million in 2013-14. 845 investigations were authorised by NAB in 2015, an increase on the 226 authorised in 2014 and 124 authorised in 2013. 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. Consequently, Pakistan was removed from the U.S.'s Financial Action Task Force's 'Grey List' in February 2015.

### **Agricultural Sector**

Agriculture continues to play a central role in Pakistan's economy. It accounts for 19.8 per cent of GDP in 2015-16, and is a source of livelihood of 43.7 per cent of the rural population. The agricultural sector also contributes to the development of other sectors as a supplier of raw materials to industry (particularly cotton) as well as providing a market for industrial products. The agricultural sector is the main source of Pakistan's foreign exchange earnings.

The agricultural sector contracted in 2015-16 by 0.19 per cent (2.53 per cent growth in 2014-15). The 2015-16 contraction was principally due to extreme weather conditions and pests. In



2015-16 crops (principally cotton) contracted by 6.25 per cent, while livestock grew by 3.63 per cent, forestry by 8.84 per cent and fisheries 3.25 per cent. The Government estimates that the agriculture sector will grow by 3.5 per cent in 2016-17 on the basis of expected contributions of important crops (2.5 per cent growth), other crops (3.2 per cent growth), cotton ginning (2.5 per cent growth), livestock (4.0 per cent growth), fisheries (3.0 per cent growth) and forestry (3.0 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 2011-12 to 2015-16 and the Government targets for 2016-17 are set out below:

	2011-12	2012-13	2013-14	2014-15	2015-16 <sup>(1)</sup>	2016-17 <sup>(2)</sup>
Agriculture.....	3.62	2.68	2.50	2.53	(0.19)	3.50
Crops	3.22	1.53	2.64	1.04	(6.25)	-
Important crops .....	7.87	0.17	7.22	(0.52)	(7.18)	2.50
Other crops .....	(7.52)	5.58	(5.71)	3.09	(0.31)	3.20
Cotton ginning.....	13.83	(2.90)	(1.33)	7.24	(21.26)	2.50
Livestock.....	3.99	3.45	2.48	3.99	3.63	4.00
Fisheries .....	3.77	0.65	0.98	5.75	3.25	3.00
Forestry.....	1.79	6.58	1.88	(10.43)	8.84	3.00

(1) Provisional pending National Assembly approval in 2016

(2) Government target.

Source: Ministry of Finance

Livestock is the single largest contributor to the overall agricultural sector, representing 58.55 per cent in 2015-16 and recording growth of 3.63 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 pulses are “*Kharif*” crops, while wheat, gram, lentil (*masoor*), tobacco, rapeseed, barley and mustard are “*Rabi*” crops.

Growth rates in the crops sub-sector, which includes important crops, other crops and cotton ginning, remained negative as crop, other crop and cotton ginning growth contracted by 7.18 per cent, 0.31 per cent and 21.26 per cent respectively. This contributed to the contraction of the agriculture sector in 2015-16.

Important crops, which has a 23.55 per cent share in the agricultural sector, contracted by 7.18 per cent on account of a large decline in cotton production (contraction of -27.83 per cent), rice production (contraction of -2.74 per cent) and maize production (contraction of -0.35 per cent) during 2015-16 against contraction of 0.52 per cent during 2014-15. Only wheat and sugarcane production witnessed a positive growth of 1.58 per cent and 4.22 per cent respectively, as compared to 2014-15. The decline in cotton production was particularly pronounced due to a combination of drought conditions, pests and declines in global commodity prices.

Other crops, which contribute an 11.36 per cent share in the agriculture sector witnessed contraction of 0.31 per cent during 2015-16 compared to positive growth of 3.09 per cent during 2014-15. This was principally due to the decline in the production of pulses, fruits and oilseeds resulting in contraction of 12.49 per cent, 2.48 per cent and 9.56 per cent, respectively. With a drop in cotton production by around 27.83 per cent in 2015-16 the cotton ginning sector has suffered badly and contracted by 21.26 per cent compared to 7.24 per cent growth during 2014-15.

Important crops accounted for 23.55 per cent of the agricultural sector in 2015-16 and contracted by 7.18 per cent in 2015-16 (0.52 per cent contraction in 2014-15). The following table sets out information regarding the production volumes of Pakistan's important crops for the periods indicated:

	2011-12	2012-13	2013-14	2014-15	2015-16 <sup>(1)</sup>	2014-15	2015-16 <sup>(1)</sup>
	<i>(thousand tons, unless otherwise stated)</i>					<i>(% change)</i>	
Cotton (thousand bales).....	13,595	13,031	12,769	13,960	10,074	9.3	(27.8)
Sugarcane .....	58,397	63,750	67,460	62,826	65,475	(6.9)	4.2
Rice .....	6,160	5,536	6,798	7,003	6,811	3.0	(2.7)
Maize.....	4,338	4,220	4,944	4,937	4,920	(0.1)	(0.3)
Wheat.....	23,473	24,211	25,979	25,086	25,482	(3.4)	1.6

(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 accounted for 21.02 per cent of GDP in 2015-16. 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 four main sub-components: (i) mining and quarrying, (ii) manufacturing, (iii) electricity generation and distribution and (iv) gas distribution and construction.

The industrial sector generally has been adversely affected by the energy crisis in Pakistan. See "Energy in Pakistan" below. Although large-scale manufacturing (**LSM**) (which accounted for approximately 10.9 per cent of the GDP and 51.8 per cent of the industrial sector in 2015-16) has in recent years been significantly affected by the energy crisis, energy supply is improving. During 2015-16 it experienced growth of 3.2 per cent compared to 3.4 per cent in 2014-15. The sector had previously struggled due to the non-availability of the desired inputs for its growth. The major issue hampering growth was power shortages. When the current Government was elected they focused on developing a road map to resolve the power crises in a fast and sustainable manner. As a result, the sector started to grow making a contribution to overall economic growth. The LSM sector also benefitted from the continued improvement in the supply of electricity and gas coupled with the expansion in credit in the private sector. The expansion of credit in the private sector remained high due to both lower cost and better market conditions.

The following table sets out the growth of several major LSM groups for the periods indicated:

Sector	Share of LSM Sector Output 2015-16	2013-14	2014-15	2015-2016
	(%)	(% growth)		
Textile .....	31.28	1.32	0.92	0.42
Food, beverages and tobacco...	21.08	7.32	(1.28)	0.92
Coke and petroleum products...	8.16	6.22	8.50	(2.59)
Pharmaceuticals .....	5.80	(0.16)	7.56	6.54
Chemicals .....	5.83	6.86	8.68	8.13
Automobiles .....	6.95	(2.56)	23.52	(16.11)
Iron and steel products .....	2.53	5.58	35.40	(9.26)
Fertilizers .....	2.76	16.50	4.56	(13.81)
Electronics .....	1.11	9.55	5.39	(1.68)
Leather products .....	1.67	11.44	8.05	7.76
Paper and board .....	4.20	10.99	(9.47)	(1.58)
Engineering products .....	1.00	(12.52)	(19.04)	(14.44)
Rubber products .....	1.67	11.47	3.10	7.16
Non-metallic mineral products...	5.86	0.80	2.25	10.02
Wood products .....	0.10	(27.57)	(75.26)	(65.83)

Source: Pakistan Bureau of Statistics

The textiles sub-sector occupies a pivotal position in Pakistan's economy, accounting for 8 per cent of GDP with significant potential for growth. It has the most intensive backward and forward linkages within the wider economic chain compared to any other sector, linking agriculture through industry to exports. Textiles contributed nearly one fourth 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 about 60 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 fourth 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 has approved a new five-year textile policy for the period 2014-19 for various short-to-long-term initiatives aimed at sustainability of textile value chain.

In December 2013, 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 and 90 per cent of its exports to the EU duty-free. As a result of GSP+ exports from Pakistan to EU countries increased from U.S.\$5.30 billion during 2013 to U.S.\$6.73 billion in 2016. See “– *Structural Economic Reforms – Trade Reforms*”.

Positive growth has been recorded in the textile related sector of LSM of approximately 0.62 per cent in 2015-16, as compared to 0.97 per cent in 2014-15. In addition, imports of textile machinery and exports of textile products have increased.

Pakistan is one of the world's top ten exporters of textiles according to the World Trade Organisation's World Trade Statistical Review 2016. Pakistan's textile exports in the calendar year 2015 amounted to approximately U.S.\$8 billion, a 9 per cent decrease on the previous year. Despite that recent decrease in export value, the overall trend in the period 2010-2015 has been upwards and Pakistan's average annual percentage increase in textile exports in the period 2010-2015 was 13 per cent. Pakistan's world export market share in textiles in 2015 was unchanged from 2010 at 2.9 per cent.

### **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*”).

Natural gas has a dominant role in Pakistan's primary energy mix, contributing approximately 48 per cent of Pakistan's primary energy supplies. The difference between natural gas demand and supply is approximately two billion cubic feet per day, resulting in curtailed gas supplies to various economic sectors. The Ministry of Petroleum and Natural Resources is seeking to enhance indigenous gas production to mitigate the shortfall as well as through imported gas by pipelines and imports of liquefied natural gas and liquefied petroleum gas.

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 1,321 billion (2012-13 to 2014-15) paid out as a tariff differential subsidy, of which Rupees 342 billion was invested in public sector entities to reduce circular debt during 2013-14. 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; 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:

	2012	2013	2014	2015	2016
	<i>(MW)</i>				
Installed capacity .....	21,021	20,415	21,350	22,672	21,961
Dependable capacity <sup>(1)</sup> .....	18,987	18,393	19,335	19,500	20,438
Peak supply .....	14,500	15,062	16,170	16,500	17,500

(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 330 billion of payment arrears by the end of 2016-17, improving prosecution of electricity theft and the increase of tariffs to reflect actual electricity prices, which has added 2,500 MW to the system in 2014-15 and 2015-16. 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 owed by the Government to power sector companies. 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; and (v) 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 331 billion as of 30 June 2016. 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 these efforts (including reductions in transmission and distribution losses and increased collection of revenue) continue. To date, the Government has reduced the stock and build-up of circular debt significantly, halving the rate of growth in circular debt that existed at the time the current Government was elected in May 2013. 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 2,500 MW of electricity to the national grid over 2014-15 and 2015-16, 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. The Government intends to use the proceeds of any privatisations of energy companies to further reduce circular debt. Both FESCO and IESCO, energy companies that have been identified by the Privatisation Commission for privatisation, are largely clear of circular debt (see “-Privatisation” above).

**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 0.88 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 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.

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. In 2014, the Executive Committee of the National Economic Council 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 approved and recently completed 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
Neelum-Jhelum Hydro Electric Project.....	969	Hydro-electric	2,570	2016
Tarbela IV extension.....	1,410	Hydro-electric	700	2017

Project	Net Capacity (MW)	Source	Estimated Cost (U.S.\$ million)	Scheduled Completion
Tarbela V extension.....	1,250	Hydro-electric	Under estimation	2018
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	2016
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:

	2010-11	2011-12	2012-13	2013-14	2014-15
<b>Energy supply</b>					
MTOE.....	64.52	64.73	64.59	66.85	70.26
Change (%) .....	2.27	0.32	(0.21)	3.50	5.11
<b>Per capita</b>					
Availability (TOE <sup>(1)</sup> ) .....	0.36	0.36	0.35	0.36	0.37
Change (%) .....	1.20	(1.68)	(2.07)	1.49	3.08

(1) Tons of oil equivalent.

Source: Hydrocarbon Development Institute of Pakistan

The total primary commercial energy supply in 2014-15 was 70.26 MTOE. Oil comprised 35.5 per cent of energy supply during 2014-15, while gas comprised 46.4 per cent, liquid petroleum gas (LPG) 0.7 per cent, coal 7.0 per cent and electricity (hydel, nuclear and imported) comprised 13.4 per cent. During 2014-15, supply of coal increased by 37.9 per cent and supply of gas decreased by 3.2 per cent compared to 2013-14, whereas the supply of oil and electricity increased by 8.5 per cent and 5.7 per cent, respectively, compared to 2013-14.

Consumption of natural gas declined during 2015-16 by 6.9 per cent compared to 2014-15, while consumption of petroleum products increased by 2.6 per cent over the same period.

6,800 MW of electricity has been added to the system since 2008-09 and a further 10,000 MW is targeted for addition to the system by 2018. Transmission and distribution losses were 18.7 per cent in 2014-15 and decreased to 17.9 per cent during 2015-16. 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 2015-16 were estimated at 350.63 million barrels. During 2015-16, average crude oil production per day remained 86,481 barrels per day compared to 94,493 barrels per day in 2014-15, a decrease of 8.47 per cent.

In 2015-16, 58,242.21 barrels per day (67.34 per cent) were produced in the northern region and 28,239.16 barrels per day (32.65 per cent) were produced in the southern region, compared to 58,618.68 barrels per day (62.03 per cent) and 35,874.61 barrels per day (37.96 per cent) in the northern and southern region, respectively, in 2014-15. For the period 2015-16, year-on-year production of crude oil in the northern region decreased by 1 per cent, whereas production in the southern region decreased by 21 per cent.

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

Region	2012-13	2013-14	2014-15	2015-16	2014-15/ 2015-16
	<i>(Barrels of oil per day)</i>				<i>(% change)</i>
<b>Northern Region.....</b>	<b>45,102.63</b>	<b>54,152.01</b>	<b>58,618.68</b>	<b>58,242.21</b>	<b>-1%</b>
Dewan.....	167.51	135.73	107.25	84.34	-21%
OGDCL .....	24,470.67	27,461.48	28,105.10	26,919.17	-4%
OPII.....	632.76	616.28	553.49	981.37	77%
POL.....	2,153.06	1,943.45	1,701.8	1,451.56	-15%
PPL.....	6,400.58	6,191.91	6,199.46	6,582.87	6%
MOL .....	10,603.79	17,293.40	20,012.62	20,181.05	1%
MPCL.....	674.26	509.76	1938.97	2,041.86	5%
<b>Southern Region .....</b>	<b>31,174.00</b>	<b>32,381.49</b>	<b>35,874.61</b>	<b>28,239.16</b>	<b>-21%</b>
OGDCL .....	16,930.02	15,507.24	14,088.68	15,008.77	7%
BP (Pakistan).....	11,621.39	13,464.17	17,804.08	231.50	-5%
PPL.....	166.70	227.94	244.56	555.28	-34%
BHP .....	1,954.44	1,392.94	836.11	111.54	55%
OMV.....	39.71	45.57	71.85	1,053.26	-54%
ENI.....	319.67	352.79	361.28	376.98	4%
MGCL .....	102.06	131.86	161.51	233.64	45%



Region	2012-13	2013-14	2014-15	2015-16	2014-15/ 2015-16
	<i>(Barrels of oil per day)</i>				<i>(% change)</i>
Petronas.....	40.01	1,258.98	2306.54	10,668.20	-40%
<b>Total .....</b>	<b>76,276.64</b>	<b>86,553.50</b>	<b>94,493.30</b>	<b>86,481.37</b>	<b>-8%</b>

Source: Ministry of Petroleum and Natural Resources

**Natural Gas.** In 2015-16, recoverable natural gas reserves (2P) have been estimated at 19.15 trillion cubic feet. Average production of natural gas during 2015-16 was almost 4,048 million cubic feet per day (**MMcfd**) compared to almost 4,016 MMcfd during 2014-15 an increase of 0.79 per cent. 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.

From July 2015 to February 2016, gas was supplied to approximately 254,870 new consumers.

Currently 31 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	2012-13	2013-14	2014-15	2015-16	2014-15/ 2015-16
	<i>(Million cubic feet per day)</i>			<i>(% change)</i>	
BHP .....	404.73	286.49	177.14	123.40	-30%
ENI.....	499.17	489.35	433.99	368.84	-15%
Dewan.....	23.18	18.31	15.04	12.34	-18%
MPCL.....	579.06	593.01	616.70	637.89	3%
OGDCL .....	1,089.40	1,171.45	1,168.42	1,116.73	-4%
OMV.....	319.00	309.53	281.20	271.62	-3%
OPL.....	13.43	9.4	7.49	13.80	84%
POL.....	14.79	14.68	12.08	11.16	-8%
PPL.....	707.69	647.8	637.63	661.36	4%
Hycarbex.....	10.31	11.13	3.56	-	-100%
Tullow .....	-	-	18.75	-	-100%
PEL.....	21.50	19.54	334.99	21.55	15%
BP (Pakistan).....	160.53	205.82	34.19	503.83	50%
Petronas.....	9.23	17.85	264.87	15.60	-54%

Company	2012-13	2013-14	2014-15	2015-16	2014-15/2015-16
	<i>(Million cubic feet per day)</i>			<i>(% change)</i>	
MOL .....	273.55	287.23	9.74	281.09	6%
POGC .....	-	10.21	4,015.78	8.74	-10%
<b>Total .....</b>	<b>4,125.59</b>	<b>4,091.8</b>	<b>177.14</b>	<b>4,047.95</b>	<b>1%</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 kilometres, of which 1,150 kilometres is to be located inside Iran and 781 kilometres inside Pakistan. Iran has been progressing implementation of the pipeline and has laid 900 kilometres of pipeline to date. Pakistan had not yet commenced construction on its section of the pipeline due to international sanctions against Iran. The project has been split into two phases with 700 kilometres of pipeline in Pakistan to be built from an LNG terminal at Gwadar to Nawabshah with the capacity to handle 500 MMCFD per day of gas and 80 kilometres of pipeline between Gwadar and the Iranian border, which is expected to be completed after international sanctions against Iran are lifted. It is anticipated by the Government that if sanctions are lifted, both phases of the project could be completed by December 2017.

**LNG.** The Government has initiated extensive efforts to establish LNG terminals in Pakistan and an LNG terminal was completed in 2015 with the capacity to handle 600 million MMCFD. The first delivery of LNG was received by Pakistan in the second quarter of 2015 and imports of LNG are set to increase. The imported LNG will be used to offset more expensive imported oil, resulting in savings to the national exchequer. An agreement in principle has been reached with Qatar and an LNG sale and purchase agreement between the two countries was signed in February 2016.

The Russian government signed a deal with Pakistan last year for the laying of a pipeline from Karachi to Lahore to transport imported LNG. The Government has selected RT Global Resources, a wholly-owned subsidiary of Rostec State Corporation, a state-owned Russian entity, to carry out the project. Rostec State Corporation and RT Global Resources are currently listed on the Sectoral Sanctions Identifications List (**SSI List**) maintained by OFAC, which prohibits certain financing transactions by US persons. The project will be carried out through a special purpose vehicle which will be wholly-owned by the Russian government (or its nominee) and independent, and not under the control, of Rostec State Corporation, RT Global Resources, their respective subsidiaries or any other party on the SSI List. The Government expects that this project will cost U.S.\$2 billion. Pakistan will fund 15 per cent. of the construction cost by way of equity injection while the remaining 85 per cent. will be financed by Russian sponsors yet to be determined but expected to be export credit agencies and on the basis of supplier credit. The first phase of the project is expected to be completed by December 2017.

Additional LNG terminals are being planned including the LNG terminal to be constructed at Gwadar. See – “Iran-Pakistan Gas Pipeline Project”.

**LPG.** LPG contributes approximately 0.7 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 373,150 Mt of LPG during 2015-16 compared to 145,634 Mt during 2014-15 and 71,093 Mt during 2013-14.

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 2015-16, more than 3.0 million vehicles in Pakistan were using CNG. There are currently more than 3,416 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. To cater for domestic demand almost 4.5 million tons of coal a year is imported. During 2015-16, 8.38 million tons of coal were supplied to various sectors of the economy compared to 8.27 million tons during 2014-15, an increase of 1.4 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 has developed an Interim Shale Gas/Oil Framework which provides special incentives to technically and financially sound companies interested in undertaking shale pilot projects in Pakistan. Currently, OGDCL is undertaking such projects in Pakistan.

**Tight Gas.** Pakistan is estimated to have 40 - 50 Tcf of tight gas reserves of which only 30 per cent potential is recoverable. 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 Polish Oil & Gas Company. Mari Petroleum Company Limited is also producing tight gas from the Dungan formation in the Zarghun South block. 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 991 exploratory and 1,314 appraisal/development wells have been drilled to date, with an average well drilling density of 2.77 wells per 1,000 square kilometres. These wells have resulted in 345 discoveries, giving a success ratio of 1:2.86. 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 65 and 26 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 improvement in recent years despite weak export performances and low foreign direct investment. 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 2013-14 through to 2015-16 as the deficit declined to 1.1 per cent of GDP. Strong financial inflows into the country were sufficient to cover the deficit in the current account. As a result, the overall balance of payments has been positive over last three years.

On a cumulative basis, the SBP's net liquid reserves increased by U.S.\$4.6 billion during 2015-16 reaching U.S.\$18.1 billion as at 30 June 2016. This is sufficient to finance more than four months of the country's import bill. Inflows from international financial institutions, higher workers' remittances and Coalition Support Fund receipts mainly contributed the reserve build up.

The Government has specifically focused on two aspects of balance of payments reform. First, increasing private direct and portfolio investment, which peaked in 2013-14 reaching 1.9 per cent of GDP then gradually fell in 2014-15 and 2015-16; and, secondly, increasing the export-to-GDP ratio (7.7 per cent at the end of 2015-16), which has been declining consistently. 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:

	2011-12	2012-13	2013-14	2014-15	2015-16 <sup>(R)</sup>
	<i>(U.S.\$ million)</i>				
Trade balance.....	(15,652)	(15,355)	(16,590)	(17,191)	(18,370)
Export .....	24,718	24,802	25,078	24,089	21,977
Imports .....	40,370	40,157	41,668	41,280	40,347
Services balance (net) .....	(3,305)	(1,564)	(2,650)	(2,963)	(2,850)
Receipts .....	5,013	6,724	5,345	5,880	5,386
Payments .....	8,318	8,288	7,995	8,843	8,236
Of which:					
Transport .....	3,516	3,297	3,874	4,155	3,153
Travel.....	1,367	1,233	1,073	1,518	1,836
Income account balance (net).....	(3,245)	(3,669)	(3,955)	(4,595)	(5,346)
Current transfers (net) .....	17,544	18,092	20,065	22,040	23,304
Of which workers' remittances.....	13,186	13,922	15,837	18,721	19,917

	2011-12	2012-13	2013-14	2014-15	2015-16 <sup>(R)</sup>
Current account .....	(4,658)	(2,496)	(3,130)	(2,709)	(3,262)
Capital account .....	183	264	1,857	375	349
Financial account .....	(1,280)	(549)	(5,553)	(4,996)	(5,543)
Direct investment (net)	(744)	(1,258)	(1,572)	(850)	(1,882)
Portfolio investment (net)	144	(26)	(2,762)	(1,882)	433
Other investment assets .....	(9)	314	(211)	(89)	93
Other investment liabilities .....	671	(421)	1,010	2,173	4,187
Net errors and omissions .....	(80)	(309)	(422)	(16)	22
Reserves and related items .....	(3,275)	(1,992)	3,858	2,646	2,652

(R) Revised

Source: State Bank of Pakistan (data prepared on the basis of the Sixth Edition of the IMF's Balance of Payments and International Investment Position Manual)

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

	2011-12	2012-13	2013-14	2014-15	2015-16
	(% of GDP)				
Exports .....	11.0	10.7	10.2	8.9	7.7
Imports .....	18.0	17.4	17.0	15.2	14.2
Trade deficit .....	(7.0)	(6.6)	(6.8)	(6.3)	(6.5)
Worker's remittances .....	5.9	6.0	6.5	6.9	7.0
Current account balance...	(2.1)	(1.1)	(1.3)	(1.0)	(1.1)

Source: State Bank of Pakistan

## Foreign Trade

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

The review of Pakistan's trade policy conducted by the WTO in March 2015 noted favourably Pakistan's economic performance, improvements in customs procedures, considerable reduction in overall tariff protection, and strengthened intellectual property rights over the past two years.

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 decreased to U.S.\$22 billion in 2015-16 (decrease of 8.69 per cent) compared to U.S.\$23.9 billion in 2014-15. The decline in exports was broadly based across most groups (textile and non-textile).

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

	2012-13	2013-14	2014-15	2015-16(P)	% Change 2014-15 / 2015-16	Absolute Change 2014-15/ 2015-16 (U.S.\$ million)	% Share
<i>(U.S.\$ million)</i>							
Food group .....	4,762.0	4,632.9	4,402.4	3,712.0	(15.68)	(690.4)	17
Textile manufacture ...	13,047.6	13,738.7	13,540.3	12,772.2	(5.67)	(768.1)	58
Petroleum group .....	27.9	721.4	921.1	454.8	(50.6)	(466.3)	2
Other manufactures ...	5,123.3	4,638.2	4,410.0	3,798.1	(13.88)	(611.9)	17
All other items .....	1,499.7	1,378.2	1,337.8	1,085.2	(18.88)	(252.6)	5
<b>Total .....</b>	<b>24,460.5</b>	<b>25,109.6</b>	<b>24,089.0</b>	<b>21,977.0</b>	<b>(8.77)</b>	<b>(2,112.0)</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.

(P) Provisional

Source: Pakistan Bureau of Statistics

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

Country	2011-12	2012-13	2013-14	2014-15	July – March 2015-16(P)
<i>(U.S.\$ billion)</i>					
U.S. ....	3.53	3.53	3.71	3.70	2.6
China .....	2.18	3.58	2.42	2.2	1.3
United Arab Emirates .....	2.29	2.16	1.75	1.0	0.6
Afghanistan .....	2.25	2.10	1.87	1.90	1.1
United Kingdom .....	1.18	1.32	1.57	1.6	1.2
Germany .....	1.06	1.02	1.15	1.2	0.8

Country	2011-12	2012-13	2013-14	2014-15	July – March 2015-16(P)
<i>(U.S.\$ billion)</i>					
France.....	0.33	0.35	0.41	0.4	0.2
Bangladesh.....	0.63	0.71	0.70	0.7	0.5
Italy.....	0.58	0.56	0.74	0.7	0.5
Spain.....	0.49	0.55	0.70	0.8	0.6

(P) Provisional  
Source: Pakistan Bureau of Statistics

**Imports.** Merchandise imports decreased slightly to U.S.\$ 40 billion in 2015-16 compared to U.S.\$46.0 billion in 2014-15, offset by increases in imports during 2015-16 in the textile group (a increase of 30.8 per cent), and in the machinery group (an increase of 11.6 per cent). However, there was a decrease of 2 per cent in the telecom sector from U.S.\$1.22 billion in 2014-15 to U.S.\$ 1.20 billion and petroleum sector decreased by 37 per cent (from U.S.\$12.1 billion to U.S.\$ 7.7 billion) in 2015-16.

Pakistan imports significant amounts of crude oil from the United Arab Emirates (4.6 million Mt in 2015-16) and Saudi Arabia (4 million Mt in 2015-16). In 2013-14 it imported a small amount of crude oil from Thailand and a nominal amount from Iran, but none during 2014-15, 2015-16 or subsequent thereto. Total crude oil imports in 2015-16 amounted to U.S.\$2,570 million.

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

	2011-12	2012-13	2013-14	2014- 15 <sup>(R)</sup>	2015- 16 <sup>(P)</sup>	% Change 2014- 15/ 2015-16	Absolute Change 2015-16/ 2014-15 (U.S.\$ million)	% Share
<i>(U.S.\$ million)</i>								
Food group.....	5,035.2	4,187.8	4,182.6	4,624.0	4,600.4	(0.51)	(23.6)	11
Machinery group ....	5,635.6	5,705.3	6,441.0	5,609.0	6,262.4	11.6	655.0	15
Transport.....	2,228.9	2,436.8	2,178.1	1,962.1	1,861.3	(5.1)	(100.8)	5
Petroleum group ....	15,252.6	14,972.9	14,838.9	12,166.8	7,667.8	(37)	(4,499.0)	19
Textile group.....	2,398.2	2,611.6	2,708.1	2,410.5	3,154.1	30.8	743.6	8
Chemical group.....	7,143.4	6,416.3	6,705.8	6,698.3	6,716.1	0.27	17.8	17
Metal group.....	2,824.3	3,337.5	3,102.1	3,246.9	3,643.5	12.15	396.6	9
Miscellaneous.....	934.8	840.5	907.9	944.2	999.6	5.87	554	2
Other items.....	3,458.9	4,441.6	4,047.9	3,740.6	4,614.8	23.37	874.2	11
<b>Total.....</b>	<b>44,911.9</b>	<b>44,950.3</b>	<b>45,112.4</b>	<b>41,280.2</b>	<b>40,347.0</b>	<b>(2.26)</b>	<b>(933.2)</b>	<b>100</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.

(R) Revised  
(P) Provisional .

Source: Pakistan Bureau of Statistics

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

Country	2011-12	2012-13	2013-14	2014-15	July – March 2015- 16(P)
<i>(U.S.\$ billion)</i>					
United Arab Emirates..	7.68	7.96	7.36	6.6	3.9
China .....	6.72	5.97	7.71	10.2	8.7
Kuwait .....	4.00	3.67	3.37	2.5	1.0
Saudi Arabia .....	5.03	3.14	4.46	3.6	1.8
Malaysia.....	2.44	1.92	1.70	0.9	0.7
Japan .....	1.92	1.89	1.78	1.7	1.3
India .....	1.51	1.70	2.05	1.7	1.3
U.S.....	1.48	1.49	1.75	1.8	1.3
Germany .....	1.12	1.18	1.22	0.9	0.7
Indonesia .....	1.16	1.22	1.58	2.1	1.6

(P) Provisional

Source: Pakistan Bureau of Statistics

The Office of Foreign Assets Control of the U.S. Department of Treasury (**OFAC**) administers regulations that restrict the ability of U.S. persons to invest in, or otherwise engage in business with, certain countries, including Iran, and specially designated nationals (together **Sanction Targets**). Pakistan trades primarily food and metal products with Iran which are exempt from trade sanctions and in 2014-15 this trade totalled approximately U.S.\$240 million, less than 0.3 per cent of Pakistan's total imports and exports in 2014-15 (July-May), a position that is consistent with Pakistan sanctions-exempt trading in 2013-14. 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. Geographically, Saudi Arabia, the United Arab Emirates, the U.S. and the U.K. are the principal sources of workers' remittances.



To date, the establishment of PRI has contributed positively to the flow of workers' remittances to Pakistan, which have grown by 77.8 per cent from 2010-11 to 2015-16. Workers' remittances increased to U.S.\$19.9 billion during 2015-16 compared to U.S.\$18.7 billion in 2014-15.

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

	2011-12	2012-13	2013-14	2014-15 <sup>(1)</sup>	2015-16 <sup>(2)</sup>
	<i>(U.S.\$ billion)</i>				
<b>Total .....</b>	<b>13.2</b>	<b>13.9</b>	<b>15.8</b>	<b>18.7</b>	<b>19.9</b>
U.S.....	2.3	2.2	2.5	2.7	2.5
Saudi Arabia .....	3.7	4.1	4.7	5.6	6.0
UAE .....	2.8	2.8	3.1	4.2	4.4
Other Gulf Cooperation Council Countries.....	1.5	1.6	1.9	2.2	2.4
U.K.....	1.5	1.9	2.2	2.4	2.6
EU.....	0.4	0.4	0.4	0.4	0.4
Other Countries.....	1.0	1.0	1.1	1.2	1.6

(1) Revised.

(2) 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 was recorded at U.S.\$1.6 billion in 2015-16 compared to U.S.\$1.8 billion in 2014-15 and the component of Pakistan's foreign private investment that is direct investment increased significantly in 2015-16 to U.S.\$1.9 billion compared to U.S.\$0.9 billion in 2014-15. More than half of these inflows are from China, with the balance coming principally from the U.S., the U.K. and the UAE. Major recipient sectors of foreign direct investment in 2015-16 principally included power, oil and gas, telecommunications and banking. The metal and petrochemical sectors, on the other hand, witnessed net foreign direct investment outflows in the same period. Insofar as foreign portfolio investment is concerned, the reclassification of the Pakistani stock market in the Emerging Markets (**EM**) Index by the Morgan Stanley Capital International (**MSCI**) in June 2016 (effective from 2017) is expected to provide encouragement to investor sentiment which is expected to have a positive impact on inflows.

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

	2011-12	2012-13	2013-14	2014-15	2015-16 <sup>(2)</sup>
	<i>(U.S.\$ million)</i>				
<b>Foreign private investment .....</b>	<b>760.6</b>	<b>1,576.0</b>	<b>2,321.4</b>	<b>1,840.2</b>	<b>1,581.3</b>
Direct investment .....	820.6	1,456.5	1,698.6	922.9	1,901.2

Inflow .....	2,099.1	2,665.3	2,847.4	2,732.0	2,761.1
Outflow.....	1,278.4	1,208.9	1,148.8	1,809.1	859.9
<i>of which Privatization Proceeds</i>					
Portfolio Investment .....	(60.0)	119.6	622.8	917.3	(319.9)
Equity securities.....	(60.0)	119.6	735.1	917.3	(319.9)
Debt securities .....	-	-	(112.2)	-	-
<i>Convertible bonds of Pakistan .....</i>	-	-	-	-	-
<i>International bonds of PMCL.....</i>	-	-	(112.2)	-	-
<b>Foreign public investment .....</b>	<b>(52.8)</b>	<b>4.6</b>	<b>2,115.2</b>	<b>927.1</b>	<b>(8.8)</b>
Portfolio investment .....	(52.8)	4.6	2,115.2	927.1	(8.8)
Equity securities .....	-	-	-	-	-
Debt securities <sup>(1)</sup> .....	(52.8)	4.6	2,115.2	927.1	(8.8)
<b>Total .....</b>	<b>707.8</b>	<b>1,508.6</b>	<b>4,436.6</b>	<b>2,767.3</b>	<b>1,572.4</b>

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

(2) Revised

Source: State Bank of Pakistan

## Foreign Reserves

Since 2010-11 through to the first half of 2013-14, the foreign exchange reserves of the country continually declined reaching a low of U.S.\$8.0 billion as of 31 January 2014. Since the second half of 2013-14, Pakistan's foreign exchange reserves improved and were U.S.\$23.1 billion on 30 June 2016.

The government has taken a number of steps to build foreign exchange reserves in recent years including the successful implementation of the IMF programme. These steps have resulted in increased inflows of loans and grants from multilateral and bilateral donors, a positive response from investors in to the country's sovereign bond and sukuk issuances, continued inflow of Coalition Support Fund money, proceeds from privatization and from 3G/4G auctions. In addition, low international oil prices and steady growth in worker remittances have also helped in containing the external current account deficit and building foreign exchange reserves.

The following table sets out the total liquid foreign exchange reserves (excluding gold), as well as the gold reserves, as at 30 June for the years stated:

	2012	2013	2014	2015	2016 <sup>(1)</sup>
	<i>(U.S.\$ million)</i>				
Liquid Foreign Exchange Reserves.....	15,288.6	11,019.6	14,141.1	18,699.2	23,098.6
Gold reserves.....	3,311	2,469	2,726	2,428	2,513

(1) Provisional.

Source: State Bank of Pakistan

Total foreign exchange reserves (excluding gold) were U.S.\$23.1 billion as at the end of 2015-16.

## 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 but has decreased in the period since. 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 2014-15 and 2015-16 average CPI inflation eased significantly to 4.53 per cent and 2.86 per cent respectively from 8.62 per cent in 2013-14, reflecting the positive impact of monetary policy, fall in global commodity prices particularly that of crude oil and exchange rate stability.

The declining trend in inflation, however, appears to have reversed in 2016-17. Year on year CPI inflation increased to 4.1 per cent in July 2016 and 3.6 per cent in August 2016 from 1.9 per cent and 1.8 per cent in the respective months of last year. This reversal in inflation trend is broad based as core inflation measured by non-food non-energy as well as 20 per cent trimmed mean recorded increase.

The present 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 regular meetings of the Economic Coordination Committee (**ECC**). The National Price Monitoring Committee (**NPMC**) also reviews prices and suggests price stabilising measures to the ECC. The SBP also targets lower inflation through prudent monetary management.

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

	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Indices</b>					
General.....	162.57	174.53	189.58	198.16	203.82
Food.....	182.20	195.18	212.74	220.20	224.78
Non-food.....	150.80	162.16	175.69	184.95	191.25
Core <sup>(1)</sup> .....	145.03	158.96	171.82	183.45	191.10
<b>Annual Inflation</b>					
General.....	11.0	7.4	8.6	4.5	2.9
Food.....	11.0	7.1	9.0	3.5	2.1
Non-food.....	11.0	7.5	8.3	5.3	3.4
Core <sup>(1)</sup> .....	10.6	9.6	8.3	6.5	4.2

(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

**Money and Monetary Policy.** The monetary aggregates (**M2**) increased by 13.7 per cent in 2015-16, compared with 13.2 per cent growth in 2014-15. The main contribution to M2 growth came from an increase in net domestic assets of the banking system, which grew to Rupees

1,349 billion in 2015-16 from Rupees 1,096 billion in 2014-15. The government's net budgetary borrowing from the banking system was Rupees 791 billion in 2015-16, and the flow of credit to private sector was Rupees 461 billion in 2015-16. Due to surplus in the balance of payments, the net foreign assets of the banking system increased to Rupees 193.4 billion in 2015-16 from Rupees 219.7 billion in 2014-15.

During 2015-16, the SBP reduced its policy rate twice by 50bps and 25bps. The first rate cut, announced in September 2015, was based on SBP projections of lower than target inflation and prevailing high real interest rates. Given low inflation and stable macroeconomic conditions, the SBP reduced the policy rate by 50bps to encourage private sector investments. The second rate cut of 25bps, however, came after the pause of eight months in May 2016. During this period, the SBP carefully evaluated the fluctuations in oil prices and its spill-over effects to domestic inflation along with a pickup in private sector credit and opted for status quo. However, after increasing slowly in the period to February 2016, inflationary pressures softened again along with current account surpluses during February to April 2016. Considering the benign inflation outlook, the SBP reduced its policy rate by a further 25bps in May 2016.

The following table provides an overview of components of monetary assets as at 30 June for the periods stated.

	2011-12	2012-13	2013-14	2014-15	2015-16 <sup>(1)</sup>
	<i>(Stock, Rupees billion)</i>				
1. Currency issued .....	1,785.8	2,050.2	2,317.9	2,715.6	3,563.6
2. Currency held by SBP .....	2	1.1	0.5	0.5	0.6
3. Currency in title of Scheduled Banks .....	110.1	110.9	139.5	160.3	229.3
4. Currency circulation (1-2- 3).....	1,673.7	1,938.2	2,177.9	2,554.7	3,333.7
5. Other deposits with SBP .....	8.9	9.1	11.7	13.7	18.8
6. Scheduled banks' total deposits <sup>(2)</sup> .....	5,959.2	6,909.1	7,777.0	8,713.6	9,472.3
7. Resident foreign currency deposits (RFCD) .....	440.1	515	599.4	597.8	587.3
8. Monetary assets (4+5+6) ....	7,641.8	8,857.8	9,968.0	11,282.0	12,824.8
9. Growth rate (%).....	14.1	15.9	12.5	13.2	13.7
1. Currency/money ratio.....	21.9	21.9	21.8	22.6	26.0
2. Demand deposits/money ratio.....	61.7	63.1	65.3	65.6	63.9
3. Time deposits/money ratio.....	10.6	9.1	6.7	6.4	5.4
4. Other deposits/money ratio.....	0.1	0.1	0.1	0.1	0.1
5. RFCD/money ratio .....	5.8	5.8	6.0	5.3	4.6

	2011-12	2012-13	2013-14	2014-15	2015-16 <sup>(1)</sup>
<i>(Stock, Rupees billion)</i>					
6. Income velocity <sup>(3)</sup> .....	2.8	2.8	2.7	2.4	2.3

(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.

The exchange rate for Rupees against other currencies is determined through cross rates based on the movement of the U.S. dollar against these currencies in the foreign exchange markets. Nominal exchange rates remained relatively stable and the Rupee depreciated by 2.9 per cent against the U.S. dollar during 2015-16 and 2014-15 compared with 0.9 per cent appreciation in 2013-14.

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

Country	Currency	2011-12	2012-13	2013-14	2014-15	2015-16
Australia.....	Dollar .....	92.0799	99.3942	94.4355	84.6839	76.0249
Bangladesh...	Taka.....	1.1323	1.2122	1.3243	1.3066	1.3347
Canada .....	Dollar .....	89.0287	96.3918	96.1451	86.6255	78.7672
China .....	Yuan .....	14.0448	15.5241	16.7648	16.3958	16.1967
Hong Kong ....	Dollar .....	11.4821	12.4874	13.2656	13.0855	13.4517
India .....	Rupee .....	1.7877	1.7669	1.6748	1.6349	1.5731
Iran.....	Rial.....	-	-	-	-	-
Japan .....	Yen .....	1.1363	1.1101	1.0179	0.8865	0.8981
Kuwait .....	Dinar .....	322.3159	342.4492	363.7315	345.8825	345.3067
Malaysia.....	Ringgit.....	28.9503	31.4404	31.6969	29.3870	25.2657

Country	Currency	2011-12	2012-13	2013-14	2014-15	2015-16
Nepal .....	Rupee .....	-	-	-	-	-
Norway.....	Krone .....	15.5831	16.8206	17.0599	14.2622	12.4177
Singapore.....	Dollar .....	70.9062	78.1706	81.6418	77.3758	75.1182
Sri Lanka.....	Rupee .....	0.7626	0.7533	0.7852	0.7695	0.7343
Sweden.....	Krona .....	13.28	14.6973	15.7563	13.1024	12.4197
Switzerland ...	Franc.....	99.7999	102.9119	113.8408	107.5754	106.5144
S.Arabia.....	Riyal.....	23.8027	25.8262	27.4309	27.0455	27.8271
Thailand.....	Baht .....	-	-	3.2066	3.1041	2.9393
UAE .....	Dirham .....	24.3038	26.3692	28.0088	27.6230	28.4165
U.K.....	Pound .....	141.4009	151.775	167.4607	159.5815	154.7033
U.S.....	Dollar .....	89.267	96.8536	102.8765	101.4598	104.3738
EMU.....	Euro .....	119.594	125.3828	139.6286	121.6891	115.8746
IMF.....	SDR <sup>(1)</sup> .....	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).

(2) Up to 1 September 2015.

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.

**2016-17 Budget.** The Pakistan 2016-17 budget, as published by the Finance Division of the Government of Pakistan on 30 May 2016, has the following main features:

- the total outlay of budget 2016-17 is Rupees 4,894.9 billion. This size is 10 per cent higher than the size of budget estimates 2015-16;
- the resource availability during 2016-17 has been estimated at Rupees 4,442.0 billion against Rupees 4,168.3 billion in the budget estimates of 2015-16;
- the net revenue receipts for 2016-17 have been estimated at Rupees 2,779.7 billion indicating an increase of 12.8 per cent over the budget estimates of 2015-16;
- the provincial share in federal taxes is estimated at Rupees 2,135.9 billion during 2016-17, which is 15.5 per cent higher than the budget estimates for 2015-16;
- the net capital receipts for 2016-17 have been estimated at Rupees 453.6 billion against the budget estimates of Rupees 606.3 billion in 2015-16 i.e. a decline of 25.2 per cent;
- the external receipts in 2016-17 are estimated at Rupees 819.6 billion. This shows an increase of 9.1 per cent over the budget estimates for 2015-16;
- the overall expenditure during 2016-17 has been estimated at Rupees 4,894.9 billion, out of which the current expenditure is Rupees 3,844.0 billion and development expenditure is Rupees 1,050.9 billion;
- the share of current and development expenditure respectively in total budgetary outlay for 2016-17 is 78.5 per cent and 21.5 per cent;
- the expenditure on General Public Services is estimated at Rupees 2,707.2 billion which is 70.4 per cent of the current expenditure;

- the other development expenditure outside Public Sector Development Programme (PSDP) for 2016-17 has been estimated at Rupees 156.6 billion;
- the size of PSDP for 2016-17 is Rupees 1,675 billion. Out of this, Rupees 875 billion has been allocated to provinces. Federal PSDP has been estimated at Rupees 800 billion, out of which Rupees 282 billion to Federal Ministries / Divisions, Rupees 318 billion to Corporations, Rupees 20 billion to Pak Millennium Development Goals and Community Development Programme (MDGs), Rupees 28 billion to Special Federal Development Programme, Rupees 7 billion to Earthquake Reconstruction and Rehabilitation Authority (ERRA), Rupees 25 billion for Gas Infrastructure Development (GID), Rupees 100 billion for Special Development Programme for Temporarily Displaced Persons (TDPs) and Security Enhancement and Rupees 20 billion for Prime Minister's Youth Programme; and
- to meet expenditure, bank borrowing has been estimated for 2016-17 at Rupees 452.9 billion, which is significantly lower than revised estimates of 2015-16.

The main features of the 2016-17 budget are set out in the table below:

RECEIPTS		EXPENDITURE	
(Rupees million)			
(a) Tax revenue <sup>(1)</sup>	3,956.1		
FBR Taxes	3,621.0	<b>A. Current</b> .....	<b>3,400.2</b>
Other Taxes	335.1		
<b>(b) Non-tax revenue</b> .....	959.5	Interest payment .....	1,360.0
Gross revenue receipts .....	4,915.6	Pension .....	245
Less provincial share .....	2,135.9	Defence affairs and services .....	860.2
		Grants and transfers .....	441.6
I. Net revenue receipts (a-b) .....	2,779.7	Subsidies .....	140.6
II. Net capital receipts (non bank) .....	538.7	Running of civil government .....	352.8
III. External receipts (net) .....	234.4	Provision for pay and pension .....	-
IV. Estimated provincial surplus .....	339.0		
V. Bank borrowing .....	452.9	<b>B. Development</b> .....	<b>994.5</b>
VI. Privatisation proceeds .....	50	Federal PSDP .....	800
		Net lending .....	38
		Other development expenditure .....	156.6
<b>Total Resources (I to VI)</b> .....	<b>4,394.7</b>	<b>Total Expenditure (A+B)</b> .....	<b>4,394.7</b>

(1) Out of which the Federal Board of Revenue tax collection has been estimated at Rupees 3,104 billion.

Source: Ministry of Finance



The comparative position of 2015-16 (budget and revised) and 2016-17 (budget) is set out below:

	Budget 2015-16	Revised 2015-16	Budget 2016-17
<i>(Rupees million)</i>			
<b>(i) Resources (a + b + c) .....</b>	4,168,338	4,279,705	4,441,965
<b>a. Internal resources.....</b>	3,366,827	3,406,416	3,572,354
Revenue receipts (Net) .....	2,463,351	2,480,671	2,779,695
Capital receipts (Net).....	606,303	588,939	453,638
Estimated provincial surplus .....	297,173	336,806	339,022
<b>b. External resources .....</b>	751,511	859,689	819,610
<b>c. Privatisation proceeds.....</b>	50,000	13,600	50,000
<b>(ii) Expenditure (a + b) .....</b>	4,451,277	4,478,535	4,894,879
<b>a. Current expenditure on Revenue Account....</b>	3,482,239	3,599,858	3,843,986
Current expenditure on Revenue Account...	3,482,239	3,599,858	3,843,986
<b>b. Total Development Expenditure .....</b>	969,038	878,677	1,050,893
Federal PSDP .....	700,000	661,297	800,000
Other development expenditure .....	164,400	127,559	156,584
Development loans and grants to provinces.....	104,639	89,820	94,309
<b>Bank Borrowing.....</b>	282,940	198,832	452,915

Source: Ministry of Finance

### Fiscal position of Pakistan

The following table summarises the consolidated federal and provincial governments' revenues and expenditures for 2016-17:

	2013-14	2014-15	2015-16	% change 2014-15/ 2015-16	Budget Estimate 2016-17
<i>(Rupees million)</i>				<i>(%)</i>	<i>(Rupees million)</i>
<b>A. Total revenue .....</b>	<b>3,637.3</b>	<b>3,931.0</b>	<b>4,447.0</b>	<b>17.9</b>	<b>5,347</b>
(a) Tax revenue.....	2,564.5	3,017.6	3,660.4	21.7	4,306
Federal .....	2,374.5	2,811.8	3,377.1	21.6	3,956
of which FBR revenue .....	2,266.3	2,588.0	3,112.0	19.9	3,621
Provincial tax revenue .....	190.0	205.8	283.3	23.4	350

	2013-14	2014-15	2015-16	% change 2014-15/ 2015-16	Budget Estimate 2016-17
	<i>(Rupees million)</i>			(%)	<i>(Rupees million)</i>
(b) Non-tax revenue .....	1,072.8	913.4	786.6	5.4	1,041
<b>B. Total expenditure .....</b>	<b>5,026.0</b>	<b>5,387.8</b>	<b>5,796.3</b>	<b>10.7</b>	<b>6,623</b>
(a) Current expenditure .....	4,004.6	4,424.7	4,694.3	3.8	5,041
Federal .....	2,831.2	3,037.6	1,123.4	3.0	1,181
Interest .....	1,147.8	1,304.0	1,263.3	(1.8)	1,359
Defence .....	623.1	697.8	757.6	12.0	860
Provincial .....	1,173.3	1,387.2	1,550.0	5.6	1,641
(b) Development expenditure and net lending .....	1,135.9	1,113.2	1,314.1	23.1	1,582
PSDP .....	865.5	988.0	1,185.8	22.5	1,435
Other Development .....	270.5	125.0	115.7	31.5	157
Net lending .....	100.6	27.4	12.6	(115.0)	(10)
(c) Unidentified expenditure .....	(215.1)	(177.6)	(212.1)	(100.0)	-
<b>C. Overall fiscal deficit .....</b>	<b>1,388.7</b>	<b>1,456.7</b>	<b>1,349.3</b>	<b>(8.8)</b>	<b>1,276</b>
As % of GDP .....	5.5	5.3	4.6	(18.9)	3.8
Financing of fiscal deficit .....	1,833.7	1,388.7	1,349.3	(4.4)	1,276
(i) External sources .....	511.7	181.0	370.5	91.0	234
(ii) Domestic sources .....	877.0	1,275.7	978.9	(23.0)	1,042
- Bank .....	323.7	892.1	787.0	(68.3)	453
- Non-bank .....	553.7	366.1	191.8	77.4	539
- Privatisation Proceeds....	0	17.5	-	185.7	50
GDP at market price .....	<b>25.2</b>	<b>27,493</b>	<b>29,598</b>	<b>11.6</b>	<b>33,509</b>

Source: Ministry of Finance

## Revenue and Expenditure

**Revenue.** During the period between 2010-11 and 2015-16 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 3.4 per cent of GDP in during July- March

2016 compared to 3.8 per cent of GDP in July-March 2015. The fiscal deficit was 4.6 per cent of GDP in 2015-16 compared to 3.8% of GDP projected for 2016-17.

**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. To meet the 2016-17 fiscal target, the authorities have taken a number of revenue and expenditure measures as described below.

- The FBR granted no new tax concessions or exemptions through SROs in 2014-15 and will no longer have the authority to issue SROs in the future. General government authority in this regard will be significantly limited. The Government is rationalising previously granted SROs. Withdrawn SRO related exemptions have raised, and are expected to, raise, the following revenues:

	2014-15	2015-16
<b>Revenues</b>	<i>(Rupees million)</i>	
1. Customs.....	31,500	45,400
2. Sales Tax and Federal Excise Duty.....	36,700	22,000
3. Income Tax.....	36,000	42,000
4. Total.....	104,200	109,400

- New tax measures have been introduced under the 2015-16 budget, which would raise revenue by 0.7 per cent of GDP. These measures include higher excise on tobacco products, raising income and capital gains tax rates on high-income taxpayers and imposing a higher, “differential rate” on taxpayers who fail to file returns and rationalising custom duty and general sales tax rates for a range of goods.
- Further progress is also being made in strengthening tax administration and broadening the tax base, while rationalising the GST regime and accelerating GST refunds to reduce distortions and improve compliance.
- Important legal hurdles to implementation of the gas infrastructure development cess have been addressed through enactment of the Gas Infrastructure Development Cess Act 2015 from parliament.
- The FBR issued in 465,165 additional tax notices by the end of 2015-16.

Taken together, these measures resulted in a tax-to-GDP ratio of 10.5 per cent in 2015-16 compared to 9.4 per cent in 2014-15. A tax-to-GDP ratio of 12.2 per cent. is targeted for 2016-17.

The FBR tax collection target for 2016-17 is set at Rupees 3,621 billion, and assumes higher economic growth and the tax administration reforms set forth above. The FBR’s revenue collection in the first nine months of 2015-16 was Rupees 2,481.0 billion, constituting 20.2 per cent growth compared to the Rupees 2,063.2 billion collected during the first nine months in 2015.

The gross collection of direct taxes grew by 14.4 per cent in the first ten months of 2016 compared to 2015. Major revenue sources for direct taxes are income tax, and withholding tax, voluntary payments and collection on demand. During 2016, gross collection of indirect taxes grew by 21.7 per cent compared to 2015 and accounted for 62.1 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 (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 2010-11 but reduced to 42.5 per cent for 2011-12 onwards. According to the current seventh NFC Award, transfers to provinces increased to Rupees 1,379 billion in 2013-14 compared to the transfer of Rupees 1,303 billion in 2012-13 and the transfer of Rupees 1,043 billion in 2011-12. During 2015-16, an amount of Rupees 1,746 billion was transferred to the provinces. Transfers to the provinces are projected to increase to Rupees 2,044 billion in 2016-17, constituting a 15% increase on 2015-16 transfers.

**Expenditure.** Total expenditure (TE) was Rupees 3,971.3 billion, or 13.4 per cent of GDP, in 2015-16 compared to Rupees 3,731.6 billion, or 13.6 per cent of GDP, in the first nine months of 2015-2016. The increase in TE was principally due to a significant increase in current expenditure, including the cost of running the civil administration, mainly due to the impact of higher salaries and allowances for federal Government employees and increased development expenditure.

Current expenditure (CE) during 2016-17 is projected to exceed the level of CE during 2015-16.

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

	2011-12	2012-13	2013-14	2014-15	2015-2016
Real GDP growth.....	3.8	3.7	4.0	4.0	4.7
Overall fiscal deficit.....	6.8	8.2	5.5	5.3	4.6
<b>Expenditure</b>					
Total .....	19.6	21.5	20.0	19.6	19.6
Current .....	15.6	16.4	16.0	16.1	15.9
Development and net lending ....	3.7	5.1	4.9	4.1	4.4
<b>Revenue</b>					
Total .....	12.8	13.3	14.5	14.3	15.0
Tax .....	10.2	9.8	10.2	11.0	12.4
Non-tax.....	2.6	3.5	4.3	3.3	2.7

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 as well as debt owed to the IMF. 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).

The composition of Pakistan's public debt has been weighted in favour of domestic debt over the past few years. As at 30 June 2016 domestic debt was approximately Rupees 13,627 billion, (46.0 per cent of GDP) and external debt was approximately U.S.\$57.7 billion. Given the relatively short maturity structure of domestic borrowing, comprised of Rupees 5,001.8 billion 36.7 per cent of total domestic debt, having a maturity less than one year and Rupees 2,525 billion of domestic debt (18.50 per cent of total domestic debt) in the national savings schemes 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 2015-16, the Government issued Rupees 484.8 billion with a maturity of three years, Rupees 407.6 billion with a maturity of five years, Rupees 71.2 billion with a maturity of ten years. Further, the Government successfully conducted three auctions of government ijara sukuk and mobilized Rupees 314 billion. The Government has reduced the refinancing and interest rate risk of its debt portfolio however to refinance its debt in this way may be challenging depending upon future macroeconomic conditions such as any increase in interest rates that has an adverse fiscal effect and any depreciation of the Rupee that 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 end June 2016 was Rupees 19,678 billion, representing an increase of Rupees 2,298 billion, a 13.2 per cent increase against TPD as of end of June 2015. Apart from fiscal deficit, the increase in Government credit balances with State Bank of Pakistan/commercial banks, debt from the IMF and dual revaluation loss on account of depreciation of US Dollar against other international currencies as well as depreciation of the Pak Rupee against the US Dollar contributed to the increase. The IMF loans are only applied towards Pakistan's balance of payments and are reflected in its foreign currency reserves. External debt in U.S. dollars increased by 13.4 per cent during 2015-16 due to net external inflows and revaluation loss due to the depreciation of the US Dollar against other international currencies.

The Government is taking measures to reduce TPD and maintain debt levels within prudent limits. To place the debt-to-GDP ratio on a firm downward trajectory and bolster macroeconomic stability, the Government has made amendments to the Fiscal Responsibility and Debt Limitation Act's (the **FRDL Act**) by defining the ceiling for the Federal Government budget deficit at 4 per cent of GDP (excluding foreign grants) during the period 2017-18 to 2019-20 and 3.5 per cent of GDP thereafter. The total public debt is projected to be reduced to 60 per cent of estimated GDP by the end of 2017-18 and thereafter a 15-year transition has been set towards a debt-to-GDP ratio of 50 per cent. On 30 June 2016, TPD was 66.5 per cent of GDP.

During 2015-16, public debt servicing was Rupees 1,599 billion against the budgeted estimate of Rupees 1,686 billion and consumed approximately 35.9 per cent of government revenues. The following table sets for the composition of Pakistan's TPD as at 30 June for the periods stated:

2011-12	2012-13	2013-14	2014-15 <sup>(1)</sup>	2015-16 <sup>(2)</sup>
<i>(Rupees billion)</i>				

Domestic debt.....	7,638.1	9,521.9	10,920	12,198.9	13,626.9
Net domestic debt*	7,674.8	9,494.0	10,387.0	12,172.1	13,167.6
External debt .....	5,057.2	4,796.5	5,071.5	5,181.8	6,051.3
<b>Total public debt</b>	<b>12,695.3</b>	<b>14,318.4</b>	<b>15,991.5</b>	<b>17,380.7</b>	<b>19,678.2</b>
Net public debt*	<b>12,732.0</b>	<b>14,290.5</b>	<b>15,458.5</b>	<b>17,353.9</b>	<b>19,218.8</b>
<b>(% of GDP)</b>					
Domestic debt	38.1	42.5	43.4	44.4	46.0
Net Domestic debt*		38.3	42.4	41.3	44.3
External debt	25.2	21.4	20.1	18.8	20.4
<b>Total public debt</b>	<b>63.3</b>	<b>64.0</b>	<b>63.5</b>	<b>63.2</b>	<b>66.5</b>
Net public debt*	63.5	63.8	61.4	63.1	64.9
<b>(% of revenues)</b>					
Domestic debt	297.6	319.3	300.2	310.3	306.4
External debt	197.0	160.8	139.4	131.8	136.1
<b>Total public debt</b>	<b>494.7</b>	<b>480.1</b>	<b>439.7</b>	<b>442.1</b>	<b>442.5</b>
<b>(% of total debt)</b>					
Domestic debt	60.2	66.5	68.3	70.2	69.2
External debt	39.8	33.5	31.7	29.8	30.8
Foreign currency debt (U.S.\$ billion)	53.5	48.1	51.3	50.9	57.7
Exchange rate (Rupees/U.S.\$ at end of period)	94.5	99.7	98.8	101.8	104.8
GDP (Rupees billion)	20,047	22,386	25,169	27,493	29,598
<b>Total revenue (Rupees billion)</b>	<b>2,567</b>	<b>2,982</b>	<b>3,637</b>	<b>3,931</b>	<b>4,447</b>

\*Excluding impact of increase in credit balances of the government with SBP/Commercial Banks

(1) Revised and approved by the National Assembly in June 2016

(2) Provisional pending National Assembly approval of Pakistan's economic data for 2015-16.

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 (mainly 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 1,428 billion to Rupees 13,627 billion, or 46 per cent of GDP, at 30 June 2016, compared with 44.4 per cent at 30 June 2015. In 2014-15, Government long term domestic borrowing increased, which reduced its exposure to refinancing and interest rate risk. Further, the volume of floating debt (short term treasury bills) increased to Rupees 5,001.8 billion, or 25.4 per cent of TPD, in 2015-16 compared with

Rupees 4,612.6 billion, or 26.5 per cent of TPD, in 2014-15. The following table provides a summary of outstanding domestic debt as at 30 June for the periods stated:

	2011-12	2012-13	2013-14	2014-15 <sup>(1)</sup>	2015-16 <sup>(2)</sup>
<b>(Rupees billion)</b>					
Permanent debt <sup>(3)</sup>	1,696.9	2,179.2	4,005.3	5,016.0	5,944.2
Floating debt <sup>(4)</sup>	4,143.1	5,196.2	4,610.9	4,612.6	5,001.8
Unfunded debt <sup>(5)</sup>	1,798.0	2,146.5	2,303.8	2,570.3	2,680.9
<b>Total</b>	<b>7,638.1</b>	<b>9,521.9</b>	<b>10,920.0</b>	<b>12,198.9</b>	<b>13,626.9</b>
<b>(% of GDP)</b>					
Permanent debt <sup>(3)</sup>	8.5	9.7	15.9	18.2	20.1
Floating debt <sup>(4)</sup>	20.7	23.2	18.3	16.8	16.9
Unfunded debt <sup>(5)</sup>	9.0	9.6	9.2	9.3	9.1
<b>Total</b>	<b>38.1</b>	<b>42.5</b>	<b>43.4</b>	<b>44.4</b>	<b>46.0</b>
<b>(% of Total Domestic Debt)</b>					
Permanent debt <sup>(3)</sup>	22.2	22.9	36.7	41.1	43.6
Floating debt <sup>(4)</sup>	54.2	54.6	42.2	37.8	36.7
Unfunded debt <sup>(5)</sup>	23.5	22.5	21.1	21.1	19.7
<b>GDP at market price (Rupees billion)</b>	<b>20,046.5</b>	<b>22,385.7</b>	<b>25,168.8</b>	<b>27,493.1</b>	<b>29,597.9</b>

(1) Revised and approved by the National Assembly in June 2016.

(2) Provisional pending National Assembly approval of Pakistan's economic data for 2015-16.

(3) Permanent debt consists principally of medium-to-long term instruments, including Pakistan Investment Bonds (PIBs), Government Ijara Sukuk bonds and Prize Bonds. PIBs are non-callable instruments with fixed and semi-annual coupon payments and have maturities of three, five, ten and 20 years. Government Ijara Sukuk are medium term Shari'ah compliant bonds currently issued with three year maturities. Permanent debt constituted 43.6 per cent of Pakistan's total domestic debt in 2015-16 against 41.1 per cent in 2014-15.

(4) Floating debt consists mainly 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 8.8 per cent of current treasury bills), six months 29.5 per cent of treasury bills) and 12 months 61.8 per cent of treasury bills) as at 30 June 2016. 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 36.7 per cent of Pakistan's total domestic debt as of end June 2016 as against 37.8 per cent of end June 2014-15.

(5) Unfunded debt is mainly 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 and floating debt to an increased dependence on permanent debt. In 2015-16, unfunded debt comprised 19.7 per cent of domestic debt (floating debt 36.7 per cent; permanent debt 43.6 per cent). The average maturity of domestic debt during 2014-15 improved to 2.3 years compared with 1.8 years during 2012-13. Domestic debt having maturity of less than a year has reduced from 64.2 per cent in 2012-13 to 47.3 per cent in 2014-15. Whilst the current low interest rate environment enables the Government, at present, to roll over floating rate debt at low rates, 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. This exposes Pakistan to refinancing risk and for this



reason the Government is taking measures to further 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:

	2011-12	2012-13	2013-14	2014-15 <sup>(1)</sup>	2015-16 <sup>(2)</sup>
Domestic outstanding debt (Rupees billion)	7,638.1	9,521.9	10,920.0	12,198.9	13,626.9
Interest payments (Rupees billion)	821.1	920.4	1,072.8	1,208.1	1,150.8
Tax revenue	40.0	41.8	41.8	40.0	31.4
Total revenue	32.0	30.9	29.5	30.7	25.9
Domestic interest payment as % of Total expenditure	20.9	19.1	21.3	22.4	19.9
Current expenditure	26.3	25.1	26.8	27.3	33.8
GDP	4.1	4.1	4.3	4.4	3.9

(1) Revised and approved by the National Assembly in June 2016.

(2) Provisional pending National Assembly approval of Pakistan's economic data for 2015-16

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 2016, EDL was dominated by Public and Publically Guaranteed (**PPG**) debt, comprising 73 per cent of all EDL. This debt was principally obtained from multilateral and bilateral counterparties. Debt obligations of the private sector in 2015-16 were limited and constituted only 5 per cent of EDL. Borrowing from the IMF contributed 8 per cent in EDL.

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 4.1 per cent per annum for 2011-12 to 2015-16, 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. 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. The Government has recently hedged its short to medium term external public debt payments denominated in Euro and Japanese Yen to lock the revaluation gain on these currencies. The following table summarises Pakistan's external debt as at 30 June for the periods stated:

	2011-12	2012-13	2013-14	2014-15 <sup>(1)</sup>	2015-16 <sup>(2)</sup>
<b>(U.S.\$ billion)</b>					
1. Public and publicly guaranteed (PPG) debt	46.4	44.4	49.0	47.8	53.0
(a) Medium and long term (>1 year)	45.8	44.1	48.2	46.8	51.3
(b) Short term (<1 year)	0.5	0.3	0.7	1.0	1.7
2. Private Sector Debt	3.6	3.1	3.0	3.0	3.3
3. Public sector non-guaranteed enterprises (PSEs' debt)	1.3	1.2	1.7	1.5	1.5
4. IMF	7.3	4.4	3.0	4.1	6.0
5. Banks	1.8	1.6	2.0	2.3	2.7
6. Debt liabilities to direct investors - intercompany debt	2.7	3.1	3.4	2.7	2.9
<b>Total external debt (1 through 6)</b>	<b>63.1</b>	<b>57.8</b>	<b>62.1</b>	<b>61.4</b>	<b>69.4</b>
7. Foreign exchange liabilities	2.4	3.1	3.3	3.7	3.6
<b>Total external debt and liabilities (1 through 7)</b>	<b>65.5</b>	<b>60.9</b>	<b>65.4</b>	<b>65.1</b>	<b>73.0</b>
(of which) public debt	53.5	48.1	51.3	50.9	57.7
Official liquid reserves	10.9	6.0	9.1	13.5	18.1
<b>(% of GDP)</b>					
<b>Total external debt (1 through 6)</b>	<b>28.1</b>	<b>25.0</b>	<b>25.4</b>	<b>22.6</b>	<b>24.5</b>
1. Public and publicly guaranteed (PPG) debt	20.6	19.2	20.0	17.6	18.7
(a) Medium and long term (>1 year)	20.4	19.1	19.7	17.2	18.1
b) Short Term (<1 year)	0.2	0.1	0.3	0.4	0.6
2. Private sector debt (>1 year)	1.6	1.4	1.2	1.1	1.2
3. Public sector enterprises (PSEs' debt)	0.6	0.5	0.7	0.6	0.5

	2011-12	2012-13	2013-14	2014-15 <sup>(1)</sup>	2015-16 <sup>(2)</sup>
4. IMF	3.3	1.9	1.2	1.5	2.1
5. Banks	0.8	0.7	0.8	0.8	1.0
6. Debt liabilities to direct investors – intercompany debt	1.2	1.3	1.4	1.0	1.0
7. Foreign exchange liabilities	1.1	1.3	1.3	1.4	1.3
<b>Total external debt and liabilities (1 through 7)</b>	<b>29.2</b>	<b>26.3</b>	<b>26.7</b>	<b>24.0</b>	<b>25.7</b>
Official liquid reserves	4.8	2.6	3.7	5.0	6.4
<b>Notes:</b>					
<b>GDP (Rupees billion)</b>	20,046.5	22,385.7	25,168.8	27,493.1	29,597.9
Exchange Rate (Rupees/U.S.\$, period average)	89.2	96.7	102.9	101.3	104.4
Exchange Rate (Rupees/U.S.\$, end of June)	94.5	99.7	98.8	101.8	104.8
GDP (U.S.\$ billion)	225	231	245	271	284

(1) Revised and approved by the National Assembly in June 2016

(2) Provisional pending National Assembly approval of Pakistan's economic data for 2015-16.

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

Total EDL servicing was U.S.\$8,835 million in 2015-16. U.S.\$3,971 million was applied to the repayment of maturing EDL stock while interest payments accounted for U.S.\$1,339 million and U.S.\$3,524 million was rolled-over.

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

Counterparty	2016-17	2017-18	2018-19	2019-20	2020-21
<i>(U.S.\$ million)</i>					
<b>Paris Club</b>					
Principal	364.89	564.93	596.16	633.28	670.48
Interest	233.50	222.13	208.29	193.76	177.08
Sub-total	598.39	787.06	804.45	827.05	847.56
<b>Non-Paris Club</b>					
Principal	9.97	10.05	10.05	10.05	9.52
Interest	2.04	1.87	1.65	1.43	1.22
Sub-total	12.01	11.92	11.70	11.49	10.74
<b>Total</b>	<b>610.40</b>	<b>798.99</b>	<b>816.15</b>	<b>838.53</b>	<b>858.30</b>

Source: Ministry of Finance

A significant portion of the IMF loans have already been repaid, however, any further reductions will be offset by an increase in debt servicing over the medium-term arising from:

- the maturity of 10 year eurobonds issued in 2006-07 (U.S.\$750 million) due in 2016-17;
- the repayment of rescheduled Paris Club debt under Official Development Assistance (ODA) starting from 2016-17;
- the repayment of the Extended Fund Facility to the IMF beginning in 2017-18;
- the 5 year eurobond issued in April 2014 (U.S.\$1 billion) maturing in 2018-19; and
- the 5-year sukuk issued in November 2014 (U.S.\$1 billion) maturing in 2019-20.

**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. 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 as end March 2016, the Government had entered into guarantees totalling Rupees 663 billion, 85 per cent of which were denominated in Rupees. In addition, it entered into counter-guarantees in commodity financing operations of Rupees 555 billion as of 31 March 2016.

EDL was U.S.\$73.0 billion as of June 2016, out of which public external debt amounted to U.S.\$57.7 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 2015-16, Pakistan's external debt recorded a loss of U.S.\$1.3 billion due to cross-currency movement against U.S. dollar.

Pakistan has issued bonds in the international capital markets. There are six international bonds outstanding: (i) U.S.\$500 million 8.250 per cent due September 2025, (ii) U.S.\$750 million 6.8 per cent due June 2017, (iii) U.S.\$1,000 million having coupon of 7.250 per cent due in April 2019, (iv) U.S.\$1,000 million Sukuk 6.750 per cent due December 2019, (v) U.S.\$1,000 million 8.3 per cent due April 2024 and (vi) U.S.\$300 million 7.9 per cent due March 2036.

**Public Debt Management.** The Government has policies in place to help improve macroeconomic stability which will help to meet its repayment obligations on external debt, stabilising the exchange rate and reducing the rollover and refinancing risk associated with domestic debt. Additional reliance may be placed on concessional financing from multilateral and bilateral sources. The Government has adopted a medium-term-debt management strategy to reduce the costs of borrowing and debt servicing in view of 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. Pakistan has 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 an 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.

The Government's three-year finance programme with the IMF - concluded in September 2016 - provided an institutional framework for the Government's economic policy objectives. Pursuant to its financing arrangements with the IMF, Pakistan was subject to quarterly economic review by the IMF officials for consideration by the executive board of the IMF. On 4 August 2016, IMF staff completed the twelfth and final review of Pakistan's economic performance. This entitles Pakistan to the release of the residual SDR 73 million (U.S.\$102 million) as agreed by an IMF executive board meeting held at the end of September 2016. With the release of the last tranche, total disbursements under the arrangement will be SDR 4.39 billion (approximately U.S.\$6.64 billion).

**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.\$1.061 billion of which U.S.\$700.4 million is to be disbursed over the next four years. The loans carry interest of 6-month LIBOR plus 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 2016, U.S.\$1,218 million was outstanding to the IBRD. The International Development Association (**IDA**) has extended loans worth U.S.\$4.279 billion, of which U.S.\$1.992 billion has been disbursed. The balance of U.S.\$2.3 billion is to be disbursed over the next six years. The loans carry interest of 1.25 per cent annum and have an average maturity of 25 years, including grace periods of 5 years. As at 30 June 2016, U.S.\$13,510 million was outstanding to the IDA. In addition, the Government has signed budgetary support with IDA for a loan of U.S.\$ 500 million for a power sector reform programme and another U.S.\$1 billion loan for a growth, investment and competitiveness programme. The Government, IDA and IBRD are currently in negotiations for additional financing of development projects.

**Asian Development Bank (ADB).** ADB is currently providing loans through the Asian Development Fund (**ADF**) and Ordinary Capital Resources (**OCR**). Loans totalling U.S.\$1,707.9 million are currently in place through ADF, of which U.S.\$745.6 million has been disbursed. The balance of U.S.\$962.3 million is to be disbursed over the next five-years. The ADF loans carry interest of 2 per cent per annum and have upto 25-year maturity (with a 5-year grace period). ADB is also providing loans through OCR. At present, OCR loans are U.S.\$3,774.73 million out of which U.S.\$1135.12 million has been disbursed. The OCR loans carry interest at a rate of LIBOR (6-month) + 50 basis points + 0.15 commitment charges and have a 25-year maturity (with a 5-year grace period).

These loans include U.S.\$393.99 million (U.S.\$ 293.99 ADF and U.S.\$100 million OCR) for the Second Energy Sector Development Program (Subprogram-2) and U.S.\$298.63 million (U.S.\$200 million OCR and U.S.\$98.63 million ADF) for the Public Sector Enterprises Reform Program (Subprogram-1) which were fully disbursed during 2015-16. As of 30 June 2016, U.S.\$10.35 billion of debt was outstanding to the ADB.

**Islamic Development Bank (IDB).** Total debt outstanding to IDB comprises U.S.\$953 million in medium and long term financing and U.S.\$1,112 million in short term financing as on 30 June 2016. IDB has a three years partnership strategy with Pakistan with the provision of up to U.S.\$300 billion allocated under the country partnership strategy for Pakistan. The amount allocated for 2012-2015 was utilized and IDB is considering allocations for the next phase.

**Asia Infrastructure Investment Bank (AIIB).** Asian Infrastructure Investment Bank (AIIB) is a multilateral international bank established for finance support to developing countries for infrastructure development in order to promote regional connectivity in the Asia-Pacific region.

Pakistan formally joined the AIIB as one of its founding members after signing of Instruments of Ratification on 3 December 2015. The Bank started its formal operations on 25 December 2015 after entry into force of its Articles of Agreement.

AIIB has provided finance for its first project, the Pakistan M-4 Motorway Shorkot-Khanewal Section, in respect of which U.S.\$100 million has been made available. A second project in Pakistan, the Tarbella-V extension project, is being considered by AIIB and up to U.S.\$300 million is expected by the Government to be approved in 2016.

Pakistan has also received bilateral economic assistance from 32 different countries. The most economically material of these arrangements are as follows:

- **China.** At present, Pakistan has ten loan agreements with China for public sector projects totalling U.S.\$9.2 billion, out of which an amount of U.S.\$2.5 billion has been disbursed with the remainder to be disbursed over the next five years with repayment over 15-20 years, including 5-7 years of grace period. Negotiations are underway for a number of other loans of around U.S.\$1,500 million. Pakistan and China are also considering the implementation of a large number of projects of mutual interest for both CPEC and non CPEC projects. Since 2006, China has provided grants of around U.S.\$730 million. Of this, U.S.\$414 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 U.S.\$56 million each year from 2007 to 2010, with that commitment being increased to U.S.\$84 million for each year from 2011 to 2013 and U.S.\$105 million each year from 2014 to 2020, a total of U.S.\$734 million from 2014-20. 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 U.S.\$112 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 U.S.\$360 million, of which U.S.\$101 million has been disbursed. As of 30 June 2016, U.S.\$1.65 billion of debt was outstanding to France.
- **Japan.** Japan provides support to Pakistan through its Official Development Assistance programme (ODA). ODA loans are extended mostly for basic economic and social infrastructure projects. Currently, there are ten active loans amounting to U.S.\$ 1.3 billion in the fields of power, roads / infrastructure and irrigation under which U.S.\$ 617 million has been disbursed as on 31 July 2016. These loans carry interest rates of 0.1 per cent.-0.4 per cent. with repayment schedules of 30 years including 10 years grace periods. Japan has provided U.S.\$ 50 million soft loan for Energy Sector Reforms Programme (I) during 2014-15 which was fully disbursed by 30 June 2015. The Government of Japan further contributed approximately U.S.\$43 million during 2015-16 for Energy Sector Reforms Programme (II) which was fully disbursed on 26-2-2016. As at 30 June 2016, U.S.\$6,613 million debt was outstanding to the Japan.
- **Saudi Arabia.** Loans totalling U.S.\$575 million are currently in place with Saudi Arabia. The loans are provided at an interest rate of 2 per cent per annum, with a repayment period of 20 years, including a five year grace period. Total debt outstanding to Saudi Arabia was U.S.\$191 million as of 30 June 2016.
- **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.\$100million for the co-financing of the Neelum-Jhelum Hydropower Project.

- **United Kingdom.** Pakistan has a significant bilateral relationship with the U.K. underpinned by our shared heritage, closely aligned strategic outlook and interests. Pakistan and the U.K. entered into a long-term development assistance relationship in 2006 by signing a 10 year Development Partnership Arrangement (**DPA**). The Economic Affairs Department of the Pakistani Government is currently discussing the new DPA with DFID, with a view to signing a new DPA by October, 2016. Pakistan received development assistance amounting to £415.1 million from U.K. in 2015-16 of which £336.3 million came from DFID, £18.6 million from the Conflict Security and Stability Fund, £8.0 million from the British Council and £52.2million from the Centrally Managed Programme. The U.K.'s projected aid spend for Pakistan for 2016-17 is £492.8 million. DFID's commitment for 2016-17 is £421 million. As of 30 June 2016, U.S.\$ 6 million was debt outstanding to the United Kingdom.
- **United States.** In 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. The duration of PEPA has been extended up to 30 September, 2020. As at 30 June 2016, U.S.\$1,368 million of debt was outstanding to the United States.
- **Turkey.** Pakistan – Turkey economic relations are institutionalized through a joint ministerial committee established in 1975. In November 2011, a bilateral currency swap arrangement for U.S.\$1 billion was signed between State Bank of Pakistan and the Central Bank of the Republic of Turkey to finance bilateral trade. Both countries concluded a Preferential Trade Agreement in 2014 and the negotiations to upgrade it to a Free Trade Agreement are underway. Four rounds of negotiations have been held while the fifth is expected in October 2016.

During the Prime Minister's visit Turkey from 16-18 September 2013, Pakistan signed a memorandum of understanding with Exim Bank Turkey for a credit line of U.S.\$300 million over a period of three years. To utilize the amount, a list of 10 projects proposals in the field of energy, infrastructure, information technology and railways was forwarded to the Turkish side. Two energy sector projects from this list have been shortlisted for finance subject to the terms being finalised.

The Turkish Government has also committed U.S.\$20 million grant for rehabilitation of temporarily displaced persons.

Other sources of bilateral financing include Kuwait (active loans U.S.\$142 million), Italy (active loans U.S.\$132 million) and Korea (active loans U.S.\$449 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 **U.S. Code**), and administrative and judicial interpretations of the U.S. 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, organized 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, including any additional 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, certain 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.

### **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**). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Certificates (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 Certificates 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.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Certificates 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 10 October 2016 (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.\$200,000,000
Deutsche Bank AG, London Branch	U.S.\$200,000,000
Dubai Islamic Bank PJSC	U.S.\$200,000,000
Noor Bank PJSC	U.S.\$200,000,000
Standard Chartered Bank	U.S.\$200,000,000
Total	U.S.\$1,000,000,000

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.

### **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 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 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 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 in the Subscription Agreement 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 any Certificate 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 and agreed in the Subscription Agreement that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Certificates (except for Certificates which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the **SFO**) other than (i) to "professional investors" within the meaning of the SFO and any rules made under the SFO; or (ii) 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 (the **CO**) or which do not constitute an offer to the public within the meaning of the CO; 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 (in each case 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 the Certificates which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the SFO and any rules made under the SFO.

## **Singapore**

Each Joint Lead Manager has acknowledged in the Subscription Agreement that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore and the Certificates will be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the Securities and Futures Act). Accordingly, the Certificates may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this Offering Circular or any other document or material in connection with the offer or sale or invitation for subscription or purchase of the Certificates be circulated or distributed, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, (ii) to a relevant person pursuant to Section 275(1) of the Securities and Futures Act, or to any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Where the Certificates are subscribed or purchased under Section 275 of the Securities and Futures Act by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the Securities and Futures Act)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (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 Securities and Futures Act) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for six months after that corporation or that trust has acquired the Certificates pursuant to an offer under Section 275 of the Securities and Futures Act except:

- (a) to an institutional investor under Section 274 of the Securities and Futures Act or to a relevant person defined in Section 275(2) of the Securities and Futures Act or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the Securities and Futures Act;
- (b) where no consideration is or will be given for the transfer;
- (c) where the transfer is by operation of law; or

- (d) pursuant to Section 276(7) of the Securities and Futures Act 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 Financial Centre)**

Each Joint Lead Manager has represented and agreed in the Subscription Agreement 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 and sale of securities.

#### **Dubai International Financial Centre**

Each Joint Lead Manager has represented and agreed in the Subscription Agreement 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 2.3.3 of the DFSA Conduct of Business Module of the DFSA Rulebook.

#### **Kingdom of Saudi Arabia**

No action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public offering of the Certificates. Any investor in the Kingdom of 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 an offer to "Sophisticated Investors" (as defined in Article 10 of the "Offers of Securities Regulations" as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008 (the **KSA Regulations**)) for the purposes of Article 9 of the KSA Regulations, through a person authorised by the Saudi Arabian Capital Market Authority and following a notification to the Saudi Arabian Capital Market Authority under the KSA Regulations. Each Joint Lead Manager has represented and agreed in the Subscription Agreement that the offer of Certificates will only be directed at Sophisticated Investors.

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, which are summarised as follows:

- (a) a Saudi Investor (referred to as a transferor) who has acquired Certificates pursuant to a private placement may not offer or sell Certificates to any person (referred to as a transferee) unless the offer or sale is made through an authorised person where one of the following requirements is met:
  - (i) the price to be paid for the Certificates in any one transaction is equal to or exceeds Saudi Riyals one million or an equivalent amount;
  - (ii) the Certificates are offered or sold to a Sophisticated Investor; or
  - (iii) the Certificates are being offered or sold in such other circumstances as the Saudi Arabian Capital Market Authority may prescribe for these purposes;
- (b) if the requirement of paragraph (a)(i) above cannot be fulfilled because the price of the Certificates being offered or sold to the transferee has declined since the date of the original private placement, the transferor may offer or sell the Certificates to the

transferee if their purchase price during the period of the original private placement was equal to or exceeded Saudi Riyals 1 million or an equivalent amount;

- (c) if the requirement in paragraph 8(b) above cannot be fulfilled, the transferor may offer or sell Certificates if he/she sells his entire holding of Certificates to one transferee; and
- (d) the provisions of paragraphs 8(a), 8(b) and 8(c) above shall apply to all subsequent transferees of the Certificates.

## **Malaysia**

Each Joint Lead Manager has represented and agreed in the Subscription Agreement that:

- (a) this Offering Circular has not been registered as a prospectus with the Securities Commission of Malaysia under the Capital Markets and Services Act 2007 of Malaysia (the **CMSA**); and
- (b) accordingly, the Certificates have not been and will not be offered or sold, and no invitation to subscribe for or purchase the Certificates has been or will be made, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons or in categories falling within Schedule 6 or Section 229(1)(b), Schedule 7 or Section 230(1)(b), read together with Schedule 8 or Section 257(3) of the CMSA, subject to any law, order, regulation or official directive of the Central Bank of Malaysia, the Securities Commission of Malaysia 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 the 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.

## **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.

## **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.

## 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, 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 in reliance on Rule 144A; or (ii) 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:

- (a) It is: (a) a QIB; (b) acquiring such Rule 144A Certificates for its own account, or for the account of one or more QIBs; (c) not formed for the purpose of investing in the Rule 144A Certificates or the Issuer; and (d) 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.
- (b) 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.
- (c) 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:
  - (i) in an offshore transaction in accordance with Regulation S under the Securities Act;
  - (ii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available);
  - (iii) within the United States to a person whom it reasonably believes is a QIB that is purchasing for its own account or for the account of one or more QIBs, in a transaction meeting the requirements of Rule 144A under the Securities Act; or
  - (iv) 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.

- (d) 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 (c).
- (e) It understands that the Issuer has the power to compel any beneficial owner of Rule 144A Certificates that is not a QIB 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 a QIB.

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*.

- (f) 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 PURCHASING FOR ITS OWN ACCOUNT OR THE ACCOUNT OF ONE OR MORE QIBS 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*.”

It acknowledges that the Issuer, the Seller, the Government, the Registrar, 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 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

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 the Transfer Agent or the Registrar 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:

- (a) 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).
- (b) 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 purchasing for its own account or for the account of a QIB, each of which is purchasing not less than U.S.\$200,000 or (b) 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.
- (c) 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.”
- (d) The Issuer, the Seller, the Government, the Registrar, 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 Registrar and the Joint lead Managers.
- (e) 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 Transfer Agent or Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transferor reasonably believes that the transfer is (i) to a person that is a QIB purchasing the beneficial interest for its own account or the account of a QIB; 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 unless its 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 Ahmed & Qazi 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 Ahmed & Qazi and Allen & Overy LLP may rely upon the opinion of Kabraji & Talibuddin. As to all matters of English law, Ahmed & Qazi 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 depository 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 depository 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 purchasing the Certificates for its own account or any account of a QIB, 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 depository of the Global Certificates, the Registrar, 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 depository of the Global Certificates, the Registrar 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 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 Registrar for completion, authentication and despatch to the relevant Certificate holder. A person having an interest in a Global Certificate must provide the Registrar 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 Economic Coordination Committee of the Federal Cabinet of the Islamic Republic of Pakistan on 23 September 2016.

The Issuer was established on 15 September 2016 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 27 September 2016 2016. 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 Internationale 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 US88429JAA43. The CUSIP for the Rule 144A Certificates is 88429JAA4. The Common Code for the Rule 144A Certificates is 150253411. The ISIN for the Regulation S Certificates is XS1501659384. The Common Code for the Regulation S Certificates is 150165938.

## **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 15 September 2016 to 30 June 2017. 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**

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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

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### LISTING AGENT

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